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CIS

ENTERPRISE ZONES: THE CONCEPT

HEARING

BEFORE THE

SUBCOMMITTEE ON
MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

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ENTERPRISE ZONES: THE CONCEPT

FRIDAY, OCTOBER 23, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY AND FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:20 a.m., in room A, Inglewood City Hall, Inglewood, Calif., Hon. John H. Rousselot (vice chairman of the subcommittee) presiding.

Present: Representatives Rousselot, Dixon, and Dymally; and Senator Hayakawa.

Also present: William Keyes, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT, VICE CHAIRMAN

Representative ROUSSELOT. I want to thank all of you for joining us. We are very, very pleased to have such a distinguished panel. I will call this subcommittee of the Joint Economic Committee hearing to order.

First of all, thank you, Senator Hayakawa, for joining us. I know you have expressed interest in this topic for some time. As you all know, our topic will be Enterprise Zones. We are interested here in a free-market strategy to facilitate the creation of urban jobs. There are quite a few pieces of legislation floating around Congress to try to achieve this.

I want to thank my colleague, Representative Julian Dixon, in whose congressional district we are situated for this hearing. He is busy on the House Appropriations Committee and also the D.C. Committee. So he knows about special districts.

And then Representative Mervyn M. Dymally, another colleague, who up until they fooled around with our districts up in Sacramento, used to have a piece of Inglewood. He still, of course, is a former lieutenant governor and has been a real activist in this area of how we stimulate jobs. He has been very much interested in this topic of Enterprise Zones.

Let me say to our distinguished panel of witnesses that we are very grateful to you for your willingness to come and give us a chance to exchange ideas. And rather than making the opening statement which I had prepared, I will just submit it for the record and say that we have quite a number of questions that we hope that those of you on this panel can help us cover. We wanted to admit to you that we are not sure that we have all the answers. Many of you here have actually had experience with or have been very much involved in working with this concept of Enterprise

Zones, especially Peter Hall, who has participated several places in helping to work this idea. Mr. Hall, who is presently with the University of California, has worked with people all over the world on this subject, particularly in England. Thank you very much for joining us.

Ms. Shirley Chilton is with Pepperdine University, where she teaches business administration and management courses to graduate students. She has also been extremely active in this area.

Charles Kadlec is executive vice president of A. B. Laffer & Associates. And, of course, we know about Mr. Laffer. He testifies quite a bit in Washington, D.C., and especially before the Joint Economic Committee. I don't know if you brought your napkin with you today, but give us a couple of graphs. Of course, that has now become a famous napkin.

Thomas Hazlett, California State University professor, we are most appreciative of your also joining us.

James Kendricks is president of Social Engineering Technology here in Los Angeles. I suppose you ought to take time to explain what that all means sometime if you can during your comments.

Mr. **Kendricks**. OK.

Representative **Rousselot**. Our other witnesses have not arrived. When they come we will introduce them.

[The written opening statement of Representative Rousselot follows:]

WRITTEN OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT

Good morning. The Joint Economic Committee's Subcommittee on Monetary and Fiscal Policy will be called to order. Today's field hearing is entitled "Enterprise Zones: The Concept."

The Reagan Administration and the United States Congress have worked throughout this year on a Program For Economic Recovery. This program of tax cuts, budget reductions, monetary restraint and regulatory reform is designed to revitalize America. The intended results include economic growth which will produce increased government revenues as well as creating millions of jobs in the private sector. However, it is felt by many that our nation's inner cities require added attention. The leading proposal to revitalize America's cities is the Enterprise Zones concept. This strategy relies on the removal of tax and regulatory obstacles as a means of facilitating business development and jobs creation.

Much evidence throughout history leads us to the conclusion that tax and regulatory reductions could spur business investment which would be of benefit to people in the most distressed areas. Taiwan, Sri Lanka and other countries have created small free trade zones which have resulted in tremendous economic growth and jobs creation. In Taiwan, for example, the government eliminated sales taxes, commodity taxes, all corporate income taxes, all customs barriers, all exchange controls regulations, and all red tape. As a result, this one square mile zone generated 7 percent of the nation's foreign trade. The surplus on the balance of payments the zone generated equalled the rest of the country's entire foreign trade deficit. Moreover, 50,000 jobs were created there in three years.

The Enterprise Zones concept as we know it was founded in Britain during the last decade. Professor Peter Hall, who is now on the Berkeley faculty, and Geoffrey Howe, who now is Chancellor of the Exchequer in Margaret Thatcher's Conservative government collaborated on this plan. We are proud to have Professor Hall join with us and three panels of excellent witnesses for today's hearing.

In many of our nation's cities, there exist vast wastelands where men and women seek the fulfillment of paid work but find only depression from the absence of job opportunities. The inhabitants of these areas are likely to live in rapidly deteriorating housing conditions. They are likely to have poor schools which do not provide their children with tools to escape dependency on welfare. And they are likely to be victims of crime on their streets or in their homes. Their joblessness prevents them from realizing the American dream. The problem also costs the taxpayers billions of dollars each year in income maintenance programs and loss of revenues.

While the benefits from the establishment of Enterprise Zones may be numerous, the number one objective for the establishment of such zones must be jobs creation.

The great majority of jobs are created by new small businesses. Therefore, the Enterprise Zones plan must be designed to remove barriers to the development and growth of small businesses.

While legislation has been introduced by various members of Congress, our hearing today will focus on the concept of Enterprise Zones. We will ask questions about what works and what doesn't work in stimulating business development and jobs creation.

Our distinguished witnesses represent the academic community, the business community and state and local governments. Though the focus of the hearing is on the general concept of Enterprise Zones, we expect to address specific concerns. Among the questions we hope to answer are:

(1) What levels of tax incentives will be substantial enough to encourage existing businesses to locate plants or branches in depressed urban areas?

(2) What types of incentives will enable people to start new businesses in depressed areas when they would otherwise not have the opportunity?

(3) What role does regulatory reform play?

(4) What is the potential for jobs-creation and economic revitalization?

(5) What are other factors which should be considered for the implementation of Enterprise Zones?

(6) What are the economic effects of various Enterprise Zones strategies? (New business development v. business relocation.)

Joining me are Senator S. I. Hayakawa and Representatives Julian Dixon and Mervyn Dymally. Neither of these men is a member of the Joint Economic Committee. Yet they are here with us today because they are concerned about positive solutions to urban problems.

Representative ROUSSELOT. Mr. Hall, you have been one of the major advocates and proposers of much of this. Why don't we have you go first?

What we are going to do is take your prepared statements. We hope that you can each summarize, if possible, in 5 minutes or so. And then we can move on to questions and discussion. I hope that you will feel free to ask each other questions. And I know that the four of us will have many questions that we will want to ask.

Before we continue, though, do any of the Members have anything to say?

OPENING STATEMENT OF HON. JULIAN CAREY DIXON, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 28TH CONGRESSIONAL DISTRICT OF THE STATE OF CALIFORNIA

Representative DIXON. Thank you very much, Congressman. I would just like to welcome you to the 28th District, and the subcommittee, for holding the hearing on Enterprise Zones here. I, too, have a prepared statement for the record. Certainly with the recognition that in the minority communities, that the unemployment is twice that of the national norm, we are very interested in any concept that will improve that situation.

I am particularly interested in any concept that will produce more jobs rather than replace one body with another that will bring stability to declining communities and support it and create existing new small businesses.

So I am very much interested in Mr. Hall's comments and the rest of the panel that have gathered here today to move it from the concept and idea, which I think every American would agree with, to hopefully in the coming year to some legislation that will do those three things: Create jobs, improve the environment in declining urban communities, and present opportunities for small businesses.

So I welcome the opportunity to join with your subcommittee and with Senator Hayakawa and Congressman Dymally in this hearing this morning.

Representative ROUSSELOT. Thank you very much, Congressman. I know you have dealt with this critical matter of how to facilitate business development in many ways in the struggle in Washington, D.C.

Congressman Dymally, do you have something you want to say?

OPENING STATEMENT OF HON. MERVYN M. DYMALLY, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 31ST CONGRESSIONAL DISTRICT OF THE STATE OF CALIFORNIA

Representative DYMALLY. Thank you, Mr. Vice Chairman. I am anxious to say something not necessarily about the Free Enterprise Zones, but I want to express my thanks to Senator Hayakawa and to you especially, Congressman Rousselot, for your assistance in making the Century Freeway a reality. I called upon you as a freshman, 1-month freshman. You did not hesitate to assist me. In fact, you spent an entire day in the 31st District, and I trust all of those efforts resulted in the implementation of a long-delayed plan. So I want to publicly express my thanks again and welcome you into the one track of Inglewood I have until December 31.

Representative ROUSSELOT. Thank you for helping us get it done. Until you got here we couldn't get it off the ground for some reason.

Representative DYMALLY. Mr. Vice Chairman, I just have a brief statement. I support highly programs which change the position of the poor and make inner cities better places in which to live. But I know there have been programs which were billed as saviors of the poor, and they did everything but help the poor. The Enterprise Zone is a potentially exciting one. It may improve the lives of inner city residents. Right now I know little about the specifics, but I ask those who propose such zones to answer questions for me. The answers I am sure will help me know where I should stand on this issue.

Does the concept of Free Enterprise Zones include the idea of repealing the minimum wage for teenagers? What part will unions and unionized labor play in the zones? Indeed, what guarantees will be made toward workers in the zones in return for their labor? Who will work in the zones and in what capacities? Who will be displaced by Free Enterprise Zones, and how will they be located? Who will receive the economic benefits from the zones? What is the role of the administration in developing the concept of the zones? Finally, how will a zone be chosen, and who will decide what enterprise will be carried out within the zone?

I want the Free Enterprise Zones to benefit the poor within those zones. If it can be shown to my satisfaction that they will accomplish this purpose, then Free Enterprise Zones will have my strong support. Thank you.

Representative ROUSSELOT. Thank you. We appreciate also the fact that you were willing to join us today.

Senator Hayakawa, I know that you have long been interested in this area of activity and have discussed it many times. Now we have got a chance to actually have some other experts here to exchange ideas with. So do you have something you want to comment on?

OPENING STATEMENT OF HON. S. I. HAYAKAWA, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator HAYAKAWA. Mr. Vice Chairman, I have a prepared statement to submit for the record. I am grateful to my colleagues for being here, and I am especially grateful to our guests for testifying this morning. The concept of Enterprise Zones is a relatively new one announced, as I understand it, only 3 years ago originally by Sir Geoffrey Howe, Chancellor of the Exchequer in Mrs. Thatcher's conservative government. Since that time legislation was enacted in Parliament to create 11 Enterprise Zones in England. And both the administration and Congress are seriously considering similar action in the United States.

We look forward very much, Mr. Hall, to hearing more about the British experience in this connection.

I am also aware that Enterprise Zones have a lot to do with the revival of Taiwan after World War II. A 1-square-mile area regenerated 7 percent of the country's foreign trade. That is a remarkable success story. The Government of Sri Lanka also decided to move in the direction of incentives and exemptions as a way of stimulating trade. And that, too, has been a very successful example of the Enterprise Zones.

So this whole matter of doing something for Watts in Los Angeles and Hunter's Point in San Francisco or areas of Oakland that are in real distress, all these ideas fascinate me very, very much.

I therefore look forward to you, ladies and gentlemen, for further enlightenment on the subject. Thank you, Mr. Vice Chairman.

Representative ROUSSELOT. Thank you, Senator.

[The prepared statement of Senator Hayakawa follows:]

PREPARED STATEMENT OF HON. S. I. HAYAKAWA

Mr. Vice Chairman, I am honored to be here, participating in the hearings of the Joint Economic Committee on the concept of Enterprise Zones. As an original cosponsor of one of the Enterprise Zone bills in Congress this session, I am particularly pleased to share my thoughts on the subject with the Committee, and listen to the views and suggestions of our distinguished witnesses.

The concept of Enterprise Zones is a relatively new one, announced only three years ago in a speech by Sir Geoffrey Howe, the Chancellor of the Exchequer in Mrs. Thatcher's Conservative government. Since that time, legislation was enacted in Parliament to create eleven Zones in Britain, and both the Administration and Congress are seriously considering similar action.

I believe the recent attention that is being paid to this concept is a result of the failure of current urban policies to encourage productivity and prosperity in the inner cities. Quite the contrary, U.S. housing policies have driven city dwellers to the suburbs, and aided in the delapidation of inner city neighborhoods.

The concept of Urban Enterprise Zones is the first urban policy initiative to bring some hope to reversing the trend of abandonment in our cities. It is a novel approach, which encourages those living in a disadvantaged area to utilize incentives, and create businesses out of rubble and decent housing out of boarded-up buildings. Enterprise Zones are new, and will work, because they are not giveaways; they demand the cooperation and involvement of residents. Instead of a hand-out, government will give depressed areas a hand in making prosperity out of devastation. I firmly believe that federal welfare policies have reduced hard working people to apathy and idleness, because they can get more for free from the government than they can by working for it. Furthermore, those things that come for free are far less likely to be treated with care and pride than those things which are the result of honest toil. I am convinced that, if we provide the tools for reconstruction, residents of economically disadvantaged areas will come together to rebuild their neighborhoods and live with pride, knowing that the success of the Zone will be directly associated with their labors. The concept of Urban Enterprise Zones is, in my opinion, the direction which we must follow, if we desire productive, clean, and safe cities.

Having established that foundation, the question now centers on which incentives should be offered to assist in urban renewal. At the federal level, the choices are limited, but important. Tax policy has stifled the growth of small businesses, especially in urban areas, where services are essential and costly. A rollback of personal, corporate, capital gains, and payroll taxes will help to ease some of the burdens that inhibit the generation and growth of businesses. Regulatory hinderances also must be withdrawn; basic protections of rights should remain, but complicated requirements that serve no logical purpose should be eliminated. Finally, some financial assistance in capital formation ought to be made available. Without capital, rebuilding will simply not be feasible.

Combined with these incentives, there must be a local commitment. Similar reductions of tax and regulatory obstacles must be forthcoming, and services vital to a growing area must be provided. The short term loss of revenues to cities will be more that offset by the long term benefits derived from a prosperous neighborhood replacing a ghost town.

I have outlined my enthusiasm for this concept, and the basic requirements I believe need to be included in a package to implement it. I am eager to hear the comments of our distinguished witnesses, so we may take them back to Washington where they can be included in a federal effort.

Thank you, Mr. Vice Chairman.

Representative ROUSSELOT. Mr. Hall, we will proceed now that we have all had our chance to tell you that we are very pleased to have you here and that we are looking forward to each of you helping us become better aware of what an Enterprise Zone is and what it can do.

STATEMENT OF PETER HALL, PROFESSOR, INSTITUTE OF URBAN AND REGIONAL DEVEOPMENT, UNIVERSITY OF CALIFORNIA, BERKELEY

Mr. HALL. Thank you. Let me say first that I have a prepared statement to enter into the record. It simply states, I suspect more eloquently, but at rather great length, what I am going to try to summarize in 5 minutes.

Representative ROUSSELOT. We will certainly make it part of the record.

Mr. HALL. The original British concept of an Enterprise Zone seems to have originated with an idea that I put forward in the summer of 1977 when I suggested following what Senator Hayakawa has just said, that the remarkable economic success of some of the countries of Eastern Asia in the last 20 years seems to have been associated with this kind of Free Enterprise Zone arrangement. And I suggested, therefore, that we should consider in Great Britain a Freeport arrangement with a general freedom from United Kingdom legislative restrictions and within its own customs zone.

The actual proposal which is now being enacted into legislation in the United Kingdom is rather different from and rather more limited than this proposal. It is not essentially a Freeport arrangement. It consists of selecting 11 zones so far which are fairly small areas generally of no more than about 1 square mile extent, which are largely derelict areas with virtually no residential population and giving in these areas to industrialists certain incentives in the form of a general freedom from zoning and planning regulations, which in the Unitd Kingdom I suppose are more onerous and more restrictive than in general they are in the United States, plus a remission of local property taxation, the loss to the city being made up by the Whitehall government, plus reduced liability to capital gains taxation, plus a 100-percent remission of corporate income tax.

There is some question in the United Kingdom as to whether the zones in this form will really achieve the objective of stimulating new and especially small enterprises or whether they will merely encourage the relocation of existing enterprise, especially larger and more capital intensive enterprise from the outside, which would not appear to achieve the real objectives of the whole exercise.

Now, in the United States, as I am sure the subcommittee will know, the proposals are taking a rather different form, concerned with the revitalization of urban areas with existing populations, expecially populations suffering higher levels of unemployment. There is a considerable emphasis on encouragement of small business through tax credits, both to the employer and the employee. And I personally am glad to see that emphasis.

However, there are some questions which I think I would like to put to the committee this morning. One is the question of the physical disruption that might be entailed if new enterprise came in on a large scale into an existing residential area. A second is the problem of the possible rise in real estate values that would follow the successful implementation of an Enterprise Zone and the effect of this on local business. A third which has already been mentioned is the question of whether the jobs created will really go to the local populations or whether the result will be in commuting if the skill requirements are higher than the local populations can provide.

That in turn is critically related, of course, to the controversial question of whether the minimum wage laws should be suspended for juveniles, which I am sure you will want to discuss this morning.

Another question concerns whether the Enterprise Zones could be successful on their own or whether they would require further associated measures, particularly for the training of expecially younger and expecially less skilled workers.

And that finally involves what I think must be a critical question. Some of these measures are going to involve funding. The original notion of the Enterprise Zone, and that, I think still espoused by the present administration, is that of minimal government involvement. But certainly the Enterprise Zone as it is now being discussed, I think, would involve some form of subsidy, at least in the short run, whether by city governments or by State governments or by the Federal Government.

And the question, therefore, must be what would be the extent of this commitment and what form it would take. Thank you.

Representative ROUSSELOT. Thank you very much, Mr. Hall. And, again, we are very grateful to you for being here.

[The prepared statement of Mr. Hall follows:]

Prepared Statement of Peter Hall

This written testimony is intended to provide a basis for my oral statement and for subsequent questions that the Committee may have. In it I shall first refer to the origins of the Enterprise Zone idea in Great Britain, and shall then discuss the rather different concept now under discussion in the United States. Finally I shall try to draw some personal conclusions about the key factors that need to be considered on developing an Enterprise Zone policy.

THE BRITISH ORIGINS

The idea of the Enterprise Zone in Britain seems to have originated with a presentation I made to the Royal Town Planning Institute in June 1977. I argued that in a few very badly decayed inner city areas, we should attempt a highly experimental "Freeport" policy. Outside entrepreneurs would be encouraged by a freedom from customs duties (and from the exchange controls that then existed in Britain). There would be free movement of goods, labor and capital. There would be minimal taxation and minimal bureaucracy. And residence would be based on choice: existing residents would be free to stay or to leave, but in any case there would not be many of them since these zones would be established only in largely derelict urban areas.

Less than 3 years later, in March 1980, the Conservative government of Margaret Thatcher announced a modified version of the same scheme. After a rapid process of selection, the first seven zones were announced in July 1980, and at the last count there were eleven. However, it is important to notice that in the process the concept has undergone a considerable change.

The main features of the British Enterprise Zones as they now exist are as follows. First, they enjoy a tax holiday, in the form of remission from local property taxes; the loss to local city revenues is made up by a grant from the Westminister government. They also enjoy a reduced rate of capital gains tax and a 100-percent allowance against corporate income tax in respect of commercial and industrial buildings. And zoning or planning controls are reduced to a minimum—though they are not entirely abolished, and all kinds of national environmental and safety regulations remain in force. They do not have Freeport status, and there has been no deliberate attempt to encourage outside capital—though some of the individual zones, I understand, have begun to publicize themselves abroad.

It is far too early to judge the success or otherwise of the British experiment. The risk is that the incentives may merely encourage existing industry to relocate into the zones, without any net generation of new employment. Further, the incentives do not appear to be specifically attractive to small industries, though the remission of local property taxes could be helpful. Lastly, the eleven zones cover in total a very small area: they have been deliberately designated as quite small tracts, usually of about one square mile or less. It should also be noticed that they are all largely derelict areas, with minimal residential populations, though all of them are close to residential areas and to quite large inner city populations, including deprived people.

THE AMERICAN INITIATIVES

It is difficult to sum up the American initiatives in a similar way, because they are so many and varied. But it already seems clear that the various models of Enterprise Zone now being discussed in the United States differ in material respects from the British experiment.

First, as Dr. Stuart Butler of the Heritage Foundation has pointed out, they are seen primarily as an instrument to revitalize decaying or decayed urban neighborhoods. The Kemp-Garcia bill currently before Congress even specifies that a minimum of 4,000 residents be located in any designated zone; and most of the incentives offered to businesses would go also to low-income housing.

Secondly, there is a specific concern to aid emergent small business. This arises in part from the important research findings of Dr. David Birch of MIT, which have indicated that two-thirds of all new jobs created in the United States originate from firms with 20 or less employees. But, he also found, the rate of job creation in depressed urban areas is much lower than elsewhere. To deal with this problem, the legislation proposes not only the removal of bureaucratic and regulatory obstacles to development, but also financial incentives that are particularly geared to small business creation—including accelerated depreciation and tax credits for both employer and employee that are refundable: that is, if the credit exceeds the firm's tax liability, then the Treasury will pay the difference to the firm. There are also more conventional incentives in the form of remission of capital gains tax and a 50 percent allowance against tax for income or interest derived from an investment in the zones.

SOME REMAINING QUESTIONS

In important respects, therefore, the American Enterprise Zone concept is different from the British one. I personally believe that in most of these respects it is potentially superior. The critical test of the Enterprise Zone idea is whether it really generates new enterprises that in turn provide new jobs, and I believe that the American prescription is more likely to do so than the British one. Further, since there is likely to be State as well as Federal legislation, there is every chance for interesting policy variations that can be evaluated in practice.

However, some words of caution may also be needed. First, the emphasis on minimum residential populations could mean a considerable amount of physical disruption in local neighborhoods if the idea proves successful. I would personally prefer a specification that the zone be close to, but not physically within, such a residential neighborhood.

A second and related question is whether, if the zone does develop as expected, land and real estate values will not rise, thus displacing the very people the policy is intended to aid. Dr. Butler has suggested that this might be overcome if local residents themselves, through community organizations, could share in the increase in values. Since currently values in such areas tend to be very low, this need not involve a massive cost to the public purse. It certainly is an idea very well worth exploring.

A third question is whether the new enterprises, if they do take root, will really provide many job opportunities for deprived local residents or whether they will draw their labor force from outside, leaving the locals as unemployed and as deprived as before. It is difficult to answer this question in general terms because that will depend on the supply of and demand for specific industrial skills.

The answer is however clearly related to a fourth topic, that is one of the more potentially controversial aspects of enterprise zone legislation: the question of whether minimum wage laws should be suspended there. My own position is that provided the enterprise zones were reasonably limited in number and extent, so that for instance they formed only a relatively small part of a city or a metropolitan area, the suspension of minimum wage laws would create an interesting socioeconomic experiment that should be tried. In these conditions, no one need suppose that workers were being forced en masse to take jobs at less than the minimum; they would do so only if they thought it worth their while. But probably, this experiment should apply only to young workers who are most prone to be unemployed, and who are also least likely to have family responsibilities.

Lastly, there is a question of whether the Enterprise Zones will succeed on their own, or whether further measures will be needed. I myself believe that other complementary policies will need to be developed, particularly in the areas of training and financing. But they could be developed without excessive burden on the public purse, through a combination of tax remissions and arrangements with local finance institutions. This indeed may be the field in which most further thought will be required.

Representative ROUSSELOT. Mr. Kadlec, do you want to go ahead with your statement?

Representative DIXON. May I say something?

Representative ROUSSELOT. Go ahead.

Representative DIXON. Mr. Hall, if I could just ask you once again to enumerate the four incentives they are using in England. I think you said freedom from local regulations.

Mr. HALL. Yes.

Representative DIXON. And also a waiver of local taxes.

The fourth one was 100 percent freedom from corporate income taxes?

Mr. HALL. Yes.

Representative DIXON. There was another one.

Mr. **Hall**. There was another one—reduced capital gains liability.

Representative **Rousselot**. Thank you.

All right, Mr. Kadlec.

STATEMENT OF CHARLES W. KADLEC, EXECUTIVE VICE PRESIDENT, A. B. LAFFER & ASSOCIATES, ROLLING HILLS ESTATES, CALIF.

Mr. **Kadlec**. First of all, I would like to say it is a great pleasure to be here. My prepared statement is in conjunction with Mr. Art Laffer, and has been submitted for the record.

When the condition of the inner city is reviewed, one can't help but be struck by the immensity of the tragedy that has struck our inner cities. When you look in terms of the data that is available, if you look at black male participation, black male unemployment rates, medium-family income, you can't help but be struck how poorly minority disadvantaged groups have done in the last 12 or 13 years.

It is not because whites have done so well. In fact, whites, too, have suffered during this period. The last 12 years have been marked by a period where the average worker's pay after taxes and adjustment for inflation has gone down, not up.

This result is striking, given the rhetoric of the last decade, to say nothing of the immensity of Government programs aimed at solving the problems of the inner city.

Yet, if you take a look at the impact of these Government programs from the point of view of economists—that is, if you incorporate incentives and their impact on human behavior into the analysis, we believe some insights can be gained. What we did here is, we said let's take a look at how much it pays to go to work if you are a low-income person. We have to subtract the amount of taxes the employer must pay, because the employer looks at the total cost to him. He doesn't look at what the person receives in pay, but what it costs him to employ that person.

Subtracting payroll taxes paid by the employer and employee reduces income about 17 percent. Federal, State, and local income taxes reduce income again; the range is between 0 to 24 percent. In addition, the loss of welfare benefits must be subtracted. These are payments in kind, and they do contribute directly to the standard of living of the individual recipient. Therefore, the loss of these payments is equivalent to a loss of income; that is, income is offset by the loss of those benefits. What you see is that, on a monthly gross wages basis as income rises from 0 to $1,300 a month, total spendable income in the county of Los Angeles goes up only $81.

That is a 92- to 93-percent type tax bracket on average between 0 and $1,300 a month of income. This is for a family of four here in Los Angeles County with one person unemployed or disabled and qualifying for all the entitlements programs.

In some of these areas, in fact, between $900 and $1,000 a month in income, an individual's standard of living falls as he or she earns more money. This is because of the rapid phaseout of certain welfare programs, especially the recent acceleration and the phaseout of aid to families with dependent children. Between $1,000 and $1,100 a month, when someone gets a pay raise of $100 a month, his spendable income goes down $68 a month. He literally gets a bill instead of a paycheck when he goes to work.

And as a result, it is not surprising that faced with choosing a better job that may make his family worse off, an individual is tempted to not take the better job. He is tempted not to go to work. He is tempted to do the best thing for his family, unless he can escape this poverty trap.

What we have done is constructed an environment where an individual is literally trapped; the harder someone works, the worse off they are. This problem, in our view, cannot be solved only by looking at reforming the welfare system. Just the reverse. You are not going to be able to reform the welfare system until people in the inner city have an opportunity to get a lot of good high-paying jobs.

So the first approach in our view is to improve the overall economic environment.

And as you know, we support the President's program. We are very much behind the across-the-board tax cuts enacted by the Congress and signed by the President. We think these tax rate reductions will contribute to growth in the United States in a meaningful way.

Unfortunately in the name of a balanced budget, those tax cuts were deferred until October 1 of this year and reduced. They were back-loaded. So what we have is a 5-percent reduction in tax rates effective October 1. What that really means is a 1.25-percent reduction in tax rates on income earned since January 1. The tax cut was retroactive to January 1. It applies to all income earned in the calendar year.

If you pit the tax cut against the rise in social security taxes and bracket creep induced by inflation, you see the economy has suffered another huge tax increase for 1981 in the name of balancing the budget.

It is an inadvertent continuation of the policies of the previous administration in which the control of spending was tried. The idea was to try to control spending while deferring tax cuts to bring the budget into balance, and only then reducing tax rates.

However, those tax rate reductions will begin to take more meaningful effect beginning next year. And we expect some positive response, assuming, of course, that inflation is under control, which is a different issue.

For the inner city in particular, however, something must be done. The problem is difficult, but not intractable. We believe the enterprise zone can make meaningful contribution to economic growth in the inner city.

We have four specific recommendations. The first is to reduce by half the payroll taxes paid by employers and employees. And this would be available to firms in the inner city for employees who also reside in the inner city up to some wage cap, say, of $1,200 a month.

The second specific proposal is to reduce all business tax rates within the inner city by one-half.

The third proposal is to exempt teenagers from the minimum wage.

Representative **Rousselot**. When you say business tax, you are saying local business tax?

Mr. **Kadlec**. Corporate, Federal, and local.

Representative **Rousselot**. That requires the cooperation of local governments?

Mr. **Kadlec**. It requires the cooperation of local government.

The fourth is to relax regulations in the inner cities, especially voluminous building codes. That is not to say that the important ones, the important fire codes and things like that, wouldn't be maintained. but we know there are lot of building codes that don't relate directly to safety and health and welfare.

In terms of the revenue impact of this proposal, we think the direct tax revenue effect would be rather small, since there is not a whole·lot of economic activity going on in the inner city that is taxable. We know there is a lot of economic activity that is not taxable.

Second of all, economic activity brought to the inner city would itself produce revenue, higher sales taxes and things like that.

Finally, what we believe is, you employ unemployed people, and welfare spending will go down. In terms of the overall budgetary effects, we think our proposal would be a net plus.

So, in our view, this is the way to begin the revitalization of America's inner cities.

Representative **Rousselot**. Thank you.

Mr. **Kadlec**. Thank you.

Representative **Dymally**. One brief question. Mr. Kadlec, do you have those specific recommendations embodied in your testimony?

Mr. **Kadlec**. Yes.

Representative **Rousselot**. It is in your statement?

Mr. **Kadlec**. It is in the statement.

[The prepared statement of Mr. Kadlec, together with an appendix, follows:]

Prepared Statement of Charles W. Kadlec

The Inner City, Incentives and Enterprise Zones [1]

SUMMARY

Over the past decade, a tragedy of immense proportions has been unfolding in America. Non-whites are falling further and further behind their white counterparts in the economic areas of jobs, participation in the labor force, unemployment and earnings. At the same time, the rising crime rate of the inner city and further deterioration of the minority family unit are creating additional adversities for victims of the inner-city poverty trap.

The relative deterioration in the postion of non-whites results not from the exceptional economic performance of whites, but has occurred in spite of poor white performance. While white performance has been discouraging, non-white performance has been even worse. All this has happened at just the time when Federal, state and local efforts to rectify inequalities have been expanded at historically unprecedented rates.

To those immersed in the political rhetoric of our times, such a contradiction must appear virtually incredible. To a trained economist, however, these results are a fully predictable consequence of the dramatically increased economic disincentives and other legislated barriers that have disenfranchised many non-whites from participation in productive activity.

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[1] Coauthored by Arthur B. Laffer

Income security programs are explicitly structured (via means tests) to penalize recipients who work and earn a low income. Recipients with large families suffer the biggest loss of benefits when a family member begins earning a wage. Over the past decade, the increased incidence of these disincentives has been exceptionally pronounced in the inner city and among minority groups.

Perhaps the most severe of work disincentives is the minimum wage which prohibits the employment of people who earn less than (currently) $3.35 per hour. Those who have less productive ability because they are young, inexperienced, uneducated, not well connected, or not fluent in their command of the English language are particularly had hit by this legislation. Despite what may well be a beneficial intent of the minimum wage its effect on the youth and unskilled workers of the inner city is so disastrous that an outside observer might well believe that it was designed to create unemployment.

Rising crime rates in the inner city are partially fueled by high unemployment rates and an antiquated penal system. The inner-city unemployed have little motivation to obtain a job since any legitimate source of revenue would be accompanied by a reduction in welfare benefits. In the unlikely event that the criminal is apprehended and convicted, prison would merely take some of the time which he has so much of anyway.

The newly legislated program of reducing personal income tax rates in order to increase incentives to work, save and invest and thereby spur economic growth will, by their very nature, benefit America's inner cities. A growing economy and the jobs it brings imply greater opportunities for those who need it most—the poor, disadvantaged and minorities.

Unfortunately, the benefits of the tax rate reductions were deferred in the name of reducing the federal government's budget deficit. The charge in withholding schedules that took place on October 1 will provide little if any impetus to economic activity during the fourth quarter.

The "effective" date for the personal income tax is important only from the point of view of an accountant. For the economy, what is important is the change in tax rates applicable to income earned in 1981. Since only one-quarter of the calendar year remains after the effective date of the tax cut, in general only one-fourth of the 5-percent rate reduction—1.25 percent— will be applicable to income earned in 1981. The remaining 3.75 percent becomes applicable on income earned after January 1, 1982. Similarly, the 10-percent reduction in tax rates scheduled to become effective on July 1, 1982, will be split between all of 1982 and 1983, with 5 percent becoming effective on personal income earned after January 1, 1982, and the remaining 5 percent becoming effective on January 1, 1983. The so-called 5-10-10 tax cut covering 33 months is in reality 1.25-8.75-10-5 extending over 48 months. The first 1.25-percent installment is effective January 1, 1982, and the last 5-percent installment is effective on January 1, 1984.

What this means is that the economy has received one more year of tax increases in hopes of balancing the budget. Ironically, the deferral of the tax cut was accepted in part in order to minimize the budgetary impact of the tax cut in fiscal 1981 while the initial spending cuts were being put into place. In effect, the string of compromises that reduced the originally proposed 10-percent tax rate cut for 1981 to its final 1.25 percent mean a continuation of the Carter Administration's policy of attempting to balance the budget (and fight inflation) by allowing inflation to push individuals and corporations into higher effective tax brackets. After adjustment for a 10-percent increase in the price level that now appears all but assured for 1981, the vast majority of taxpayers have been pushed into a higher tax bracket even with the personal income tax cut.

At the same time, legislated changes in various entitlement programs for the poor and disadvantaged have increased the disincentives facing the working poor.

For a family of four in Los Angeles, with one member either unemployed or disabled, the poverty trap created by the combination of Federal, state and local taxes, and "means" and "needs" tests based on income has been tightened. When these changes are implemented, a member of the family that raises his or her gross wages (including employer payroll taxes) from zero to $1,300 a month will realize only an $81 increase in net family spendable income, nearly $40 less than before the recent tightening of welfare eligibility requirements. As a result, for an inner-city resident, it has never been truer than today that it pays to be poor.

Alleviating the poverty trap is not an intractable problem. But, attempts to reform the welfare system will not prove successful until those who depend on government transfer programs are given an abundance of opportunities to find good, high paying jobs. Thus, our recommendations focus on methods to increase incentives for self-improvement without effecting additional changes in the nation's welfare program. It is for this reason the following four-part program is targeted primarily to benefit our forgotten inner cities. For designated Enterprise Zones:

1. Business income tax rates for firms operating in the inner city should be reduced by half.
2. Employer and employee payroll tax rates should be reduced by half up to an annual wage rate of, say, $12,000 for firms located in the inner city for each employee whose principal residence is also in the inner city.
3. Teenagers should be exempted from the minimum wage.
4. Major regulatory disincentives such as voluminous and arcane building codes should be relaxed.

DIMENSIONS OF INNER-CITY DETERIORATION

There are several aspects by which the quality of life in the inner-city has been disrupted by welfare related legislation. On one level, participation in the labor force by non-white males has fallen both on an absolute basis and relative to whites. The percentage of the non-white male population looking for work or actually working is significantly lower than it was 12 years ago. White participation rates in contrast have remained approximately constant (Table 1).

TABLE 1.—MALE PARTICIPATION RATES BY AGE AND RACE

[Percent]

Age	White		Nonwhite	
	1968	1981	1968	1981
16 to 17	47.7	48.4	37.9	31.0
18 to 19	65.7	74.6	63.3	56.7
20 to 24	82.4	87.9	85.0	79.5
25 to 34	97.2	96.2	95.0	90.2
35 to 44	97.6	96.4	93.4	89.4
45 to 55	95.4	96.9	90.1	84.4
55 to 64	84.7	72.7	79.6	63.5
65 plus	27.3	18.9	26.6	18.3
All ages combined	80.4	78.6	77.6	71.5

Source: U.S. Department of Labor, Bureau of Labor Statistics—Employment and Earnings, May 1981.

As shown, the average of non-white participation rates has fallen by 6.1 percent while it remained roughly even for whites.

An individual may have many diverse reasons for not participating in the labor force, but the economist focusing on incentives would guess that a rational individual would not participate when the cost of participation exceeds the expected returns. As the value of leisure and the benefits from not participating in the labor force increase, participation should fall. As the probability of finding work and the gains from working fall, participation should fall. When all of these events are occurring at the same time in the inner city, it should not be surprising that participation rates have fallen.

One measure of the likelihood of finding work is the unemployment rate. This dimension of the poverty trap reveals the same trends as the participation rate and to a more alarming extent. Table 2 below lists unemployment rates for males by age and race to clearly illustrate the trend since 1968.

TABLE 2.—MALE UNEMPLOYMENT RATES BY AGE AND RACE

[Percent]

Age	White		Nonwhite	
	1968	1981	1968	1981
16 to 17	12.3	18.5	26.6	34.1
18 to 19	8.2	15.2	19.0	31.9
20 to 24	4.6	12.2	8.3	22.3
25 to 34	1.7	5.6	3.8	12.2
35 to 44	1.4	3.4	2.9	8.2
45 to 54	1.5	3.2	2.5	7.0
55 to 64	1.7	3.2	3.6	6.6

TABLE 2.—MALE UNEMPLOYMENT RATES BY AGE AND RACE—Continued

[Percent]

Age	White		Nonwhite	
	1968	1981	1968	1981
65 plus	2.4	2.0	4.0	8.8
All ages combined	2.6	6.1	5.6	13.1

Source: U.S. Department of Labor, Bureau of Labor Statistics—Employment and Earnings, May 1981.

As shown, the average of non-white unemployment rates has risen 7.5 percentage points compared to only a 3.5 percentage point increase for whites. In every age category, the probabilities of being among the unemployed for non-whites has increased dramatically relative to whites across the 12-year period. A similar picture holds for female unemployment rates when whites and non-whites are compared.

As with labor force participation, there are many reasons for a person to be unemployed. The economist focusing on individual incentives will note some of the most obvious and most important reasons.

Unemployment takes place when firms cannot profitably hire a worker at a wage that the worker is willing to accept. Legislative contributions to unemployment can be direct, as with a minimum wage so high that no employer finds it worthwhile to hire the youth and unskilled of the inner city. Other legislation contributing to unemployment is less obvious. Further regulatory burdens, higher taxes on employers and a worsening capital shortage all contribute to a decline in the demand for workers. These changes occurring in the last decade have resulted in additional unemployment and a disturbing fall in the purchasing power of the average worker's paycheck. This is illustrated by the third link in the poverty chain.

Over the past decade, real earnings of black males in most age groups have grown faster than real earnings of whites on both an absolute and a relative basis (Table 3). The same is true for non-white females. That seemingly is reason for encouragement. However, the data may be misleading. Given the large increases in unemployment, and decreases in participation rates among non-white males 20 years and older, it is conceivable that large numbers of low income blacks no longer are employed and earning income year round. The increase in median income thus may reflect the dropping of lower income males from the calculation, rather than an elevation in overall black welfare.

TABLE 3.—MEDIAN INCOME OF MALES EMPLOYED YEAR ROUND BY AGE AND RACE

[1978 dollars]

Age	White			Nonwhite		
	1968	1978	Increase	1968	1978	Increase
20 to 24	$10,882	$10,683	−$199	$8,403	$7,645	−$758
25 to 34	15,153	15,510	357	10,723	13,266	2,543
35 to 44	16,978	18,507	1,529	10,664	14,288	3,624
45 to 54	16,101	19,302	3,201	10,953	13,294	2,341
55 to 64	14,666	17,693	3,029	9,314	12,112	2,798
All ages combined	15,091	16,360	1,269	10,070	12,530	2,460

Source: Bureau of the Census, Current Population Reports.

This interpretation of the data is supported by movements in median family incomes. For both black and white families living in the central cities, median income in constant dollars declined between 1969 and 1978 (Table 4). But for blacks, the decline in absolute dollars was nearly double that of whites. The gap between black and white median family income in metropolitan areas outside of the central city narrowed somewhat. On an overall basis, however, the disparity between the standard of living enjoyed by black and white families increased during the nine years ending in 1978.

TABLE 4.—MEDIAN INCOMES OF FAMILIES

[1978 dollars]

	White			Nonwhite		
	1969	1978	Increase	1969	1978	Increase
Inside central city	$17,867	$17,402	−$465	$11,667	$10,834	−$883
Metropolitan outside central city	19,941	20,865	924	12,305	14,821	2,516
All families	17,622	18,129	507	10,460	10,879	419

Source: Bureau of the Census, Current Population Reports, June 1980.

To make matters worse, this increased disparity in living standards occurred at a time when the purchasing power of the average worker's income adjusted for taxes was declining. Real spendable earnings for a nonagricultural production (or nonsupervisory) worker with three dependents peaked in 1977 at $238.40 per week (1980 dollars). By 1980 real spendable earnings had declined to $206.22.

This fall in the purchasing power of the average worker's wages is tragic when compared to the almost constant advances in real wages that have occurred over the last century. The greatest part of this tragedy is felt by the marginal worker, who by the very nature of his marginality is the first to lose his job when demand for workers falls. For this worker the question is not one of whether or not his wages will keep up with inflation, but whether he will continue to be a productive, self-supporting member of society or merely an addition to the welfare lines. His cost cannot be fully expressed in dollars since it must include the personal degradation of continually seeking work and being told that his services are unwanted. The fact that this type of degradation is focused on people of minority races can only add to the victim's feelings of resentment and social anomie.

An individual's decision to not participate in the labor force is an active statement of how he sees his abilities relative to society's values. He might be saying that his chances of finding a job are so low that it is not worth trying. He might be saying that the wage he could be paid for his work would be so low relative to welfare opportunities that it is not worthwhile to seek work. One way or another, non-participation is tantamount to not even having hope for engaging in the productive activity that is a central part of most people's lives.

The scale of the unemployment problem is not fully reflected in the average figures since there is a growing concentration of high unemployment rates in nonwhite youth. Considering both the 38-percent unemployment rate and the 45-percent participation rate, more than 70 percent of this group, among those not currently in school, are either looking for work and unable to find it, or not even bothering to look for work. These people are developing habits and a lifestyle in which productive activity is absent. They are missing the training and experience which has been used by past generations of non-whites as an entree to the business world.

MAGNITUDE OF ECONOMIC DISINCENTIVES

The net effects on spendable income of the combination of "needs" tests and taxes for an inner-city family of four in Los Angeles are calculated in Table 5. The family is assumed to have two adults, one of whom is either disabled or unemployed. In addition, it is assusmed that the family avails itself of the maximum city, county, state and Federal welfare benefits to which it is entitled given its income.

The impact of incremental increases in gross wages of $100 per month has been calculated up to $1300 per month. The wage figure is the total cost to the firm of employing one person. The income figures thus include employer contributions to social security and a maximum level of employment insurance contributions.

Several biases exist cutting in a number of directions, but the central point is obvious. Marginal tax rates for inner-city inhabitants are prohibitively high (Table 5).

TABLE 5.—THE EFFECTS OF INCOME AND TAXES ON FAMILY SPENDABLE INCOME FROM WAGES AND WELFARE BENEFITS

Monthly gross wages	Net family spendable income	Increase in spendable income [percent]	Defacto marginal tax rate [percent]
$0	$1,129	n/a	n/a
100	1,181	52	48
200	1,220	39	61
300	1,240	20	80
400	1,235	−5	105
500	1,271	36	[1] 64
600	1,291	20	80
700	1,293	2	98
800	1,295	3	97
900	1,293	−3	103
1,000	1,292	−1	101
1,100	1,224	−68	[2] 168
1,200	1,191	−33	133
1,300	1,210	19	81

[1] The decrease in marginal tax rates is due to the completion of the phase-out of Medical benefits at $400 per month in gross wages.
[2] The increase in marginal tax rates is due to the rapid elimination of AFDC benefits between gross wage of $1,000 and $1,200 a month. Including employment tax paid by employer.
n/a Not Applicable.

Note: Applies to a family of 4 in Los Angeles, 1 member of whom is unemployed or disabled.

Sources: State Department of Social Services, Los Angeles, Calif.; County Welfare Office, Department of Social Services, West Los Angeles, Calif.; Housing Authority of the City of Los Angeles, Operations Department, Los Angeles, Calif.; South West Family Aid, Department of Social Services.

Over the entire range from no wages to $1,300 per month (equivalent to a gross paycheck of about $1,200 per month), the family has at its disposal an additional $81 per month. This corresponds to an average tax "wedge" of more than 93 percent. For incomes between $900 and $1,200 per month, the family's ability to buy goods and services actually falls the more it earns. This corresponds to marginal tax rates of more than 100 percent. (Further explanation of the above calculations is provided in the Appendix.)

FAMILY DETERIORATION

Disruption of the family unit is another aspect of welfare disincentives which might have been expected from a careful study of the benefit structure. Benefits from public assistance agencies are generally directed toward family units, and these benefits increase less than proportionately as family size increases. Two families of three members each will generally be eligible for more benefits than one family of six members when there is no outside income. This incentive towards divisiveness increases as the family begins earning income. As the family of six earns income, its benefits fall at a faster rate than they would for two families of three each earning half as much.

The incentives to divide a family go further when one considers that in a family unit with two adults, one of the two must be working unless he is disabled or has been unsuccessful in his job search. In a family unit with only one adult, it is unnecessary that the one adult work or search for a job as long as there are school age children at home Separating the family can simultaneously increase welfare benefits and eliminate the need for one adult to work.

The benefit scales can present an even more pressing need for family separation when one member is fully employed. Employment may sufficiently reduce benefits to the family so that other family members would have more available to them if the working adult were not present. This set of rules may make family desertion a parental duty. A male who is not legally part of the family unit can work and occasionally make in kind contributions to the family without reducing any welfare benefits. In view of the financial encouragement of this situation, it should not be surprising that more than half of black children under the age of 18 are not living with both parents and more than half of black births are currently being counted as illegitimate. The figures in Tables 6 and 7 tell the story more completely.

TABLE 6.—MAXIMUM BENEFITS UNDER MAJOR WELFARE PROGRAMS

	Family of 6	2 families of 3	3 families of 2
Food stamps	$332	$366	$384
AFDC	771	1,012	1,224

While these figures show some incentives for family division, the strongest incentives exist when one adult family member is working. By keeping himself separate from the rest of the family through lack of marriage or any other legal connection, the family can avoid the hideous marginal tax rates of Table 5. Table 7 illustrates family trends which may be related to this incentive structure.

TABLE 7.—*Households with female head*

	Percent
White:	
1966	7.4
1979	11.6
Change	4.2
Nonwhite:	
1966	18.6
1979	36.8
Change	18.2

Source: U.S. Bureau of the Census, Current Population Reports.

Rate of illegitimacy in births

	Percent
White:	
1965	3.9
1978	8.7
Nonwhite:	
1965	26.2
1978	47.5

Source: U.S. National Center for Health Statistics, Vital Statistics of the United States.

INEFFECTIVENESS OF WELFARE PROGRAMS

In 1965, total social welfare expenditures were just over $77 billion or 11.7 percent of gross national product. By 1970, these programs totaled almost $146 billion or 15.2 percent of GNP. As of 1980, total social welfare expenditures totaled $394.5 billion, or almost 19.3 percent of GNP. By far the fastest increases occurred at the Federal level. By 1980 Federal Transfer Payments in constant dollars were 3.2 times what they had been in 1965. As a share of GNP, Federal expenditures had more than doubled. In 1965 state and local expenditures on social welfare were slightly greater than Federal expenditures. In spite of the tripling of state and local expenditures, by 1980 Federal expenditures exceeded state and local expenditures by over $86.5 billion.

In the persistent effort to achieve parsimony in conjunction with fairness and equity, social welfare programs have adopted stringent criteria for welfare recipients. For Social Security recipients there is the "retirement" test which reduces the tax-free benefits allowed as earned income for the retired rises above $5,500 per year. Similar "means and income" test strictures apply to recipients of food stamps, housing subsidies, aid for dependent children, unemployment compensation, etc. These criteria of eligibility were designed to ensure that only the truly needy would receive the help they so desperately lacked. Excluding people in progressively higher income groups meant that funds would not be squandered on those who were less in need.

While these "means," "retirement," "incomes," "unemployment" and other "needs" tests may be rationalized on both moral and budget grounds, they have market perverse effects on the economic incentives of the poor. At the same time, all sorts of governmental licensing, environmental safety and code requirements have reduced economic incentives for employing the poor. It is difficult enough for a well educated suburbanite to comply with codes, taxes and licensing requirements. For an inner-city, poorly educated individual, these barriers border on being insurmountable. These impediments alone are so great as to raise the question: why is the inner city doing as well as it is? Yet, still we hear people asking the reverse: given what is spent, why isn't the black community doing better? One look at the difficulty inner-city minority residents have in merely filling out driver's license forms, immigrant visas, etc., puts an entirely different perspective on the true issues.

URBAN POLICY

After some 10 years of growing Federal involvement and expenditures aimed at the inner city, it is clear that additional Federal involvement and expenditures will exacerbate, not alleviate problems created by past government. Under the Carter administration, for example, bigger Federal subsidies were proposed to stem the fiscal deterioration of the cities; while indefinite continuation of special unemployment benefits and new employment tax incentives to business were proposed to support the unemployed and to offset the pernicious effect of the minimum wage law. Additional construction of public housing—which is free of property taxes—was proposed to replace the housing stock being abandoned by the private sector.

But programs that ignore the enormous disincentives to supply work effort in the inner city now imposed by government programs are doomed to failure. Excessive effective tax rates on low income families have distorted the economy of the inner city and produced a poverty trap. Only after these effective tax rates are reduced will the economy of the inner city and the economic standing of the disadvantaged reach their full potential.

The lessons from history are clear. The success stories of Americans from humble origins were written because economic shackles were loosened. The sharp decline in unemployment and the rapid rise in real incomes during the Kennedy tax-cutting era were directly a consequence of the improved economy associated with enhanced private incentives.

The head of the NAACP, Benjamin Hooks, is reported to have made the point succinctly in advocating decontrol of energy. "Blacks," he said, "are hired last and fired first. The only way we'll ever get and keep jobs is if there are so many jobs around we have to be hired." Economic growth is a prerequisite for elevating the disadvantaged and poor. Increased economic incentives bring economic growth.

Across-the-board income tax cuts would have their biggest impact on the poor. In addition, specific programs can be targeted primarily to benefit our forgotten inner cities. These programs must enhance incentives for self-improvement.

In order for business to be attracted to the inner city, firms need to anticipate after-tax profits. A halving of business income tax rates for inner-city firms would go a long way toward providing socially constructive incentives. Given the current absence of profitability in the inner city, such a big reduction in tax rates would have little effect on business tax revenues. To the extent that some unemployed found work and some welfare recipients earned more, Federal, state and local spending would fall.

Equally important is the need to assure something other than "absentee businesses"—firms located in the inner city but employing suburbanites. This would require a halving of both employer and employee payroll tax rates up to an annual wage rate of, say, $12,000 for firms located in the inner city for hiring an employee who resides in the inner city. Such a dramatic reduction in payroll tax rates would mean little net revenue loss. Every person newly employed would save the government much more in welfare and unemployment compensation than he would cost in forgone taxes. Higher property values would raise city revenues. Higher income, sales and other tax receipts would also occur because of more output. Less poverty and despair would ultimately lead to more efficient educational spending, less need for police protection, etc.

The third part of an effective inner city redevelopment program would be to exempt teenagers from the minimum wage law. This change, as proposed by numerous legislators in Washington, would have some immediate beneficial effects. It would, to the extent teenagers found jobs from the increased business activity levels in the inner city, also reduce deficits. Its most important effect, however, would be long run. Teenagers would be able to become apprentices and learn the requisite skills to become productive members of the work force. As such, this step is crucial for a permanent solution to the decline of the inner city.

The fourth and final part of a comprehensive plan to elevate the inner city would be to relax major regulatory disincentives such as voluminous arcane building codes. Federal relief should be, in part, conditioned on a demonstration of serious efforts to relax unnecessary and unwarranted impediments to private economic activity. Thus, revenue sharing, grants-in-aid and the like should incorporate criteria along these lines.

Altogether, such a four-point program could go a long way toward revitalizing a crushing social, economic and moral burden. It would accomplish its task by reinstating incentives where they now are most lacking.

Individuals respond to incentives. People do not work for fun; nor do firms produce as a matter of social conscience. The supply of work effort is literally the demand for goods. Without a correspondence between work effort and more goods, work effort fades away and, simultaneously, so does the supply of goods.

The good intentions of our social architects have all but eliminated economic incentives for one of our most disadvantaged groups—inner-city inhabitants. As is fully predictable from economics, the performance of the inner-city sector of the economy has been abominable. Until incentives are restored, the prognosis for this sector of our economy and society remains bad—however much is spent. At the very least, the debilitating effects of minimum wage laws, regulations and "needs" tests must be mitigated before substantial improvement can be envisioned.

APPENDIX

Tax and welfare disincentives incurred by the working poor (1980). Applies to a family of four in Los Angeles, one member of whom is unemployed or disabled.

1. Employer taxes; 6.65 percent employer's share of Social Security plus 3.4 percent unemployment insurance contribution plus 1 percent contribution to mandatory workmen's compensation. Total: 11.05 percent of gross wages paid.
2. Employee Social Security Tax; 6.65 percent of gross wages.
3. State and Federal income taxes. Increasing progressively to about 24 percent.
4. Aid to Families With Dependent Children (AFDC). Income should be over $900 to qualify. Maximum payment is $601 and is reduced progressively by using the formula: 601 − ($75 − $160 per dependent child − $30) × 0.66.
5. Rent subsidy (Los Angeles Housing Authority). Maximum amount payable toward family rental cost for a 2-bedroom apartment in an elevator building, $386 per month, reduced progressively to $110 per month at a gross wage income of $900.
6. MediCal. Private insurance premium equivalent of California provided medical benefits, $102 per month if wage income is less than $808. (Reduced on a dollar by dollar basis for income above $808.)
7. Food Stamps. Maximum allowable monthly income for a family of four, $916.

Sources: State Department of Social Services, Los Angeles, Calif.
County Welfare Office, Department of Social Services, West Los Angeles, Calif.
Housing Authority of the City of Los Angeles, Operations Department, Los Angeles, Calif.
South West Family Aid, Department of Social Services, Los Angeles, Calif.
California Franchise Tax Board, Los Angeles, Calif.
IRS, Los Angeles, Calif.

Representative ROUSSELOT. Mr. Hazlett.

STATEMENT OF THOMAS HAZLETT, PROFESSOR, DEPARTMENT OF ECONOMICS, CALIFORNIA STATE UNIVERSITY, FULLERTON

Mr. HAZLETT. For several decades, the American Government has been committed to alleviating the demoralizing conditions among this Nation's poor. Curiously, this commitment who has resulted in social welfare expenditures by Government in the hundreds of billions, has seen not the elimination of poverty, the devastated, crime-infested inner-city ghetto.

Public programs to solve the specific problems of these poverty pockets have produced even more discouraging results. Publicly administered economic programs attempt to distribute resources to stimulate inner-city business development based on the goodwill and good guidance of agency officials. Economists are quick to become nervous with such faith in people, coupled with such small recognition of the institutional constraints under which these people act.

Government bureaucrats, in looking for the business ideas which will revitalize a depressed area, have a critically biased set of information to guide them. Successful competitors in the process to obtain Government loans, grants, contracts, or tax subsidies have no necessary correlation with the set of competitors most successful in satisfying the demands of consumers or most alertly utilizing the talents of inner-city workers and entrepreneurs in producing the means with which to satisfy that demand. In a world of limited resources, not all potential entrepreneurs can be the direct recipients of Government aid. Those selected for this privilege should, by most standards, be precisely those individuals or firms which demonstrate the greatest aptitude for solving the problem at hand. Sadly, the political solution offers us no hope that such performers will be chosen for aid. Our real world experience is that both public agencies and their clients respond, as profit maximizers always do, to the immediate incentives placed before them. In the political world, these incentives are political.

Moreover, these programs limit our ingenuity to those approaches which can be sold to the bureaucrats who administer such programs. By nature, these approaches are conservative and traditional. And for good reason. We cannot afford to gamble with public funds. However, the economic sphere demands the risk-taking function if successful economic innovation is to occur. The need for private entrepreneurship—for ghetto capitalism—is apparent. We must expand our matrix of possibilities beyond the narrow horizon of Government planners.

The question for which we are posed to pounce upon today, of course, is how. And let us immediately turn to the problems we might encounter with Enterprise Zones.

Enterprise Zones have two types of problems, the first of which is to reduce their probability of succeeding, and the second of which raises disturbing questions about their effects if successful.

First, the prospects for success. At present, proposed Enterprise Zone incentives are limited in coverage and depth. Only firms that hire a high percentage of CETA-eligible workers qualify for the major benefits. Reduction of corporate income taxes, abolition of capital gains taxes and the possibility of a lighter regulatory regime. While these incentives appear sufficient to revitalize areas that already are near economic recovery, they may be too limited to affect more distressed areas.

In the most devastated inner cities, even powerful tax and regulatory inducements alone may prove insufficient to revive business. The major deterrents to economic recovery in these areas are not tax or regulatory burdens but such problems as high crime, poor services, and decrepit infrastructure. Enterprise Zones must reduce these problems as well.

Municipalities have only limited ability to bring about such basic improvements. Given past experiences, stepped-up police activity seems unlikely to reduce the incidence of inner-city crime. Lasting improvements in city services and infrastructure may be similarly difficult to achieve. Expenditures for such purposes are beyond the fiscal means of many cities at present. Any efforts mounted, moreover, are likely to encounter high rates of time and property destruction, in addition to a lack of internal incentives to operate in cost-effective and economical ways.

The second nature of our problem is the problems arising with success. For zones managing to overcome problems of weak incentives, crime, and other deterrents, further problems would tend to arise. These problems would accompany Enterprise Zone success. As barriers to economic revival lessened, investors and immigrants would move into the zone. The inflow of capital would push up land values and tend to set in motion a gentrification process, accelerated by the tax and regulatory incentives. Lacking equity in land, the poor are likely to be dislodged from their homes as the area becomes a more attractive place in which to live and work.

A thriving zone might also impair the fiscal health of sponsoring governments. Advocates of Enterprise Zones point out that little tax revenue is generated by firms located in the areas proposed for Enterprise Zones. If reinforced by reductions in crime and other fundamental deterrents, however, the tax and regulatory inducements offered within the zones would attract significant numbers of enterprises. Many of these firms would otherwise pay taxes in other jurisdictions. Fiscal strains would be compounded to the extent that municipalities which reduced tax burdens undertook current efforts to upgrade the zone services and infrastructure.

And the basic way in which I think we might propose going about this, and I will cut it very short, is, first of all, to strengthen the incentives. And the area to look for in strengthening these incentives would be the removal of things such as zoning laws and building codes, as alluded to, and State and municipal taxes.

Also a very key part of this program should be emphasis on local community groups which should be an integral part of any Enterprise Zone concept. In other words, local community groups should be handed some sort of control and some sort of equity, this is a very key point, some sort of equity in the property that is under the jurisdiction of the Enterprise Zone.

This will entail inducements on the part of neighborhoods, particularly high-crime neighborhoods, for residents to form crime-prevention services on their own. And these sorts of services have proved the best and most effective in these areas as opposed to increased police controls and so forth, in organizing such things as block watches, patrols, and other crime-reducing initiatives.

If organized community groups are involved in this process, this will give them a financial stake in the neighborhood and solve several problems at once, also keeping the citizens from being displaced when the Enterprise Zone is successful and property values do rise.

Representative ROUSSELOT. Thank you. We appreciate your provocative thoughts.

Ms. Shirley Chilton of Pepperdine University. If you will go ahead with your statement, please.

STATEMENT OF SHIRLEY R. CHILTON, CHAIRMAN OF THE BOARD, CLAVIS CORP., AND ASSOCIATE PROFESSOR OF ECONOMICS AND MARKETING, PEPPERDINE UNIVERSITY, MALIBU, CALIF.

Ms. CHILTON. Thank you, Congressman. I am very pleased to be able to be with you, and I appreciate the invitation.

I will make my remarks very brief, because much of what I would say has already been stated. And I don't think it is necessary to duplicate it.

I would like to say, however, when we have questions and answers, much of what I have to offer will have a background of a very, extensive research project that was embarked upon by the Department of Commerce, and specifically the Minority Business Development Agency's task force report on the Impact of Enterprise Zones on Small and Minority Business.[1]

The project was performed by a task force comprised of four people. We visited 19 different cities around the country and interrogated five groups of people: State representatives, city, representatives, big business, medium- and small-sized business, minority business groups and community groups located in the area that might involve Enterprise Zones.

What we found primarily was the necessity for the objectives be clearly defined as to what Enterprise Zones should accomplish. We identified three that were stipulated as the ones that could be discerned with regard to the current legislation.

Representative ROUSSELOT. Let me interrupt just briefly. How recently did you go to these 19 cities?

Ms. CHILTON. Within the last 3 months.

Representative ROUSSELOT. So it is very current?

Ms. CHILTON. It is very current. The report is just being finalized now and will be available probably within 2 weeks.

But what happened was that we determined if Enterprise Zones was to address job development, it would take a different approach than if it was to address business development, community revitalization, or all three. For example, if it was decided that Enterprise Zones should develop business, it might be in conflict with the residents of the community, which has already been pointed out here. This is because often good business configuration demands that businesses cluster together for support purposes. And depending on what the size might be designated for the zone, you might not meet the goals and objectives of the community.

There were some other things that were pointed out. Inasmuch as we were asked to address our remarks here today to concepts, I have not identified really specific solutions. There were many. Many, that presented some innovative and creative ideas. But tax incentives, for example, for small businesses are not practical because small businesses don't have significant taxes to pay.

Addressing the problem of startup businesses the question must be asked, What is the best use of pools of funds? Is it for healthy viable businesses or start ups? There were other concerns with regard to infrastructure. If the purpose of Enterprise Zones is to make an environment completely free of regulation, of taxes and whatever, then it is unrealistic to assume the cities will provide the services. However, if the goal is to have a public/private partnership, there may have to be considerable negotiations as to what the participation would be.

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[1] See app., p. 213.

Again what has been mentioned here is the minority participation is very important. There should not be the mistake made to put all minorities in the same category because there are different cultures and backgrounds that affect what the end result will be.

Another concern was the management monitoring of the zones. It did not make sense to many people to inflict another level of regulation over such a project in order to make sure that certain things happen. There were suggestions such as perhaps the 80 percent/20 percent rule should govern with regard to 80 percent of your business generated from 20 percent of your personnel. Or that 80 percent of the people have a high degree of integrity and 20 percent don't. It might be more cost effective to make the assumption that you are going to have 20 percent abuse and that the cost of regulation for monitoring the zone areas would be more than what the abuse might cost.

These were some of the thoughts which were expressed in the research that was conducted. I would be happy to go over them in detail in our question-and-answer period. But I would like to mention one thing with regard to the marketing, * * * Enterprise Zones should not be presented as a panacea or quick fix. An extensive public relations program should be conducted to enlist the full cooperation of all involved.

It has become evident that our society, including business as well as welfare recipients, have become dependent on a riskless environment. Everyone is seeking a guaranteed return or future, because they can no longer depend on the future controlled solely by themselves.

And this, gentlemen, was evident everywhere we went from big business all the way down. Big government has eroded their confidence in themselves, because it has destroyed the integrity of its economic system. The Nation needs desparately to learn how to take risks again in forging a new era of growth and excellence.

I would just like to leave you with this thought. I wonder what would have happened if the pioneers had wanted a guarantee before they took off across the country.

Representative ROUSSELOT. Thank you, Ms. Chilton.

I forgot to mention that Ms. Chilton is also president-elect of the California Chamber of Commerce.

[The prepared statement of Ms. Chilton follows:]

PREPARED STATEMENT OF SHIRLEY R. CHILTON

My name is Shirley R. Chilton and I am chairman of the board of a private financial consulting company, Clavis Corporation as well as an associate professor of economics and marketing at Pepperdine University. In addition, I am a director of the National Development Council and president-elect of the California Chamber of Commerce. I have had over 23 years experience in the securities industry and was chief executive officer of a Member Firm of the New York Stock Exchange for six years. I share this information with you because I want to give some credibility to the remarks I wish to present today concerning a vital issue for the socio-economic stability of the United States.

Let me say at the outset, that my personal reaction to being invited to address this distinguished committee which is concerned about the economic and social future of this Nation, is that it is most appropriate. It should be understood by all of you that I am first and foremost a sociologist in philosophy and secondly an economist in implementation. To explain what I mean by this statement I would like to point out that I started my career as a Social Worker for the State of California. I quickly discovered that I was working with the symptom and not the disease and that dispensing money and effort to ease the symptom would not cure the problem. With very little deduction it became apparent that economic viability was the solution to a healthy social fabric.

Therefore, my remarks will deal with solutions which will provide long-term socio-economic strength and not short-term band-aid recommendations which cause structural damage to our society and particularly people in distressed areas which the Enterprise Zone Concept addresses.

As you know, distressed urban areas have their own particular set of problems in their struggle to become viable economic entities. Crime, decaying infrastructure and lack of a skilled labor pool deter business expansion or growth. However, the favorable proximity of the real estate enhances the potential several-fold if the proper mix of incentives can be packaged. Although special incentives for specific locations involves targeting, it may be the only solution for recovery.

CONSIDERATIONS FOR ENTERPRISE ZONE CONCEPT

Establish principal goal and/or objective of zones. Economic development means difference things to different people. The method of implementation should be different for each of the following:

Job development.—Small businesses in and by themselves will take a long time to achieve substantial employment opportunity. If larger businesses are to be included as "anchors" attracting small support businesses, employment will be facilitated.

Business development.—Healthy business development requires a mix of sizes and technology and should be integrated accordingly.

Community development.—Can be in conflict with the two objectives above because businesses and job development often form in "clusters" and may not have the same objectives and community design as the local residents.

Zone longevity.—Some mechanism of assurance from Federal, State and local governments must be in place so that businesses will feel their presence in Enterprise Zones will not be at the whim of politicians or at jeopardy at each election.

Tax Incentives vs. Capital Formation.—Refrain from too much emphasis on tax incentives to attract small businesses to the area in the current financial climate. Their greatest requirement is long term financial assistance at rates they can afford to cover during a growth period. Unless this problem is solved first, only larger businesses will be able to take advantage of the Zone tax incentives. Many specific approaches have been examined during the past year which involve savings of the private sector which appear to have merit.

Regulations.—Regulation changes will be necessary to make different forms of capital available for different ventures. Institutions will need more freedom to stimulate risk pools of funds for Zone investments.

Infrastructure.—This question must be asked: "Is it the intent of the Enterprise Zone to function in a maximum free environment to demonstrate what will happen?" If this is indeed the purpose, then no attempt should be made to provide infrastructure and add to the burden of local governments. If this is not the case and it is the intention to establish a public/private partnership, then some jawboning may be appropriate to obtain some consensus of contribution on the part of all parties.

Minority Participation.—Do not approach minority participation in Zone development as if all minorities will function the same. There are many various cultures involved and outcomes can be considerably different. Should you be interested in a more in-depth discussion regarding these differences as they surfaced in a recent research study, please let me know. I will be happy to review them with you.

Community Involvement.—Mandating percentages of local residents for new jobs in Zones may act as a disincentive. A flexible program with rewards may be far more attractive for both employer and employee.

Monitoring.—I will be important to determine in advance to what extent management, control or monitoring will be conducted in the Zone. Overlaying restrictions to participate in the Zone may defeat objectives to encourage free activity in the area. The cost of the control may amount to more than any abuse which might occur. Perhaps a University could assume this task through the auspices of their School of Business or Management.

Zone Concept Configuration.—It may be a better idea to limit initial Zone areas to only two or three demonstration locations with the two approaches stated above tried on a competitive basis to see which is more successful.

Marketing.—Lastly, Enterprise Zones should not be presented as a panacea and a "quick-fix." An extensive public relations program should be conducted to enlist the full cooperation of all involved. It has become evident that our society, including business as well as welfare recipients, have become dependent on a "riskless" environment. Everyone is seeking a guaranteed return or future because they can no longer depend on a future controlled solely by themselves. Big government has eroded their confidence in themselves because it has destroyed the integrity of its economic system. The Nation needs desperately to learn how to take risks again and forge new areas of growth and excellence.

I would like to leave you with this thought: What would have happened if the pioneers had sought a guarantee before they set out across the plains?

Representative ROUSSELOT. I am sure, in the question-and-answer followup period we will pursue this further.

Mr. Kendricks, please proceed.

STATEMENT OF JAMES W. KENDRICKS, VICE PRESIDENT, SOCIAL ENGINEERING TECHNOLOGY, LOS ANGELES, CALIF.

Mr. KENDRICKS. Mr. Vice Chairman, members of the subcommittee, fellow participants, we are pleased to be here this morning to share with you our ideas and concepts relative to making Enterprise Zones more effective. We have a prepared statement, Mr. Scheele and I. And I would like to correct, for the record, Mr. Scheele is in fact president of our company, and I am not. I am vice president. But if you choose to promote me, I have no problems with it.

Representative ROUSSELOT. I am sure Mr. Scheele minds. [Laughter.]

Mr. KENDRICKS. I am sure he does.

We wish to convey to the subcommittee a collection of particular points which we believe can make the Enterprise Zones project more beneficial. In our prepared statement you will notice we have a series of pictures drawn. And I would like to go to those pictures to indicate the way we seen Enterprise Zones being implemented.

We talk about new jobs and economic vitality. What we are getting to here is that we believe that we should focus on the capacities of the individual jobless citizens, including the underemployed who are presently working, but who are displaced from their highest skill levels, who would be productive along with the surplus resources of the urban community.

Institutions such as manufacturing, finance, commerce, and service organizations, whether public or private will all benefit from Enterprise Zones.

We speak to the issue of providing assistance to teams instead of individuals. Our point here is that in past or former administrations' resources have been focused on individuals through CETA programs and so forth. What has occurred is that these forms of assistance have left those individuals without the necessary skills to embark upon their own particular enterprises. When those funds cease, these people fall back into their desperate position, where they were before. They do not know how to proceed with their own particular enterprises. We think that the legislation should focus on assisting these people to become self-directed in terms of developing their own particular enterprises.

As we go on, we speak to the issue of embarkment teams as a unit for economic development. That concept refers to the development of teams to plan economic enterprise ventures within the inner city, in particular we are now talking in terms of Enterprise Zones. We believe these teams should be formed and they should plan and develop strategic plans to initiate new ventures, new businesses along with the provision of particular technical assistance that is required. In this manner we don't leave these residents in the particular area without the participation which they require.

We speak to combining chronically unemployed with structural underemployed to create new vitality. We think that if you combine the skill levels of those people who are unemployed, and, believe me, they have skills, with these people who are underemployed, you will have the kind of vitality that will allow the development of strategic plans that can be utilized in the inner city.

We speak to private and public initiatives for new enterprises. We think, there is little doubt, the large and private businesses will come into Enterprise Zones because of the competition advantages. Those inside the zone will in fact have a competitive advantage over those outside the zone. Consequently, this could create problems. Nevertheless, we think that in terms of the public and private initiatives, there should be support both from the public sector as well as the private sector. And most of all there should be a balance between those organizations coming into the inner city and those already existing in the inner city. That balance should be created or maintained.

We speak to forming teams and identifying embarkments. We reason that the jobless and the underemployed should be formed into teams, these teams should be developed in workshops, with assistance to develop the new ventures or embarkments. There should be team events which focus on reviewing their strategic plans which they have developed, in order to determine whether these new initiatives should receive financing or loans made available to them to initiate their new enterprises. At that point we should assist them to move forward with their enterprises.

Of course, the writing speaks in more detail to each particular concept. I am really hitting the highlights of each concept at this point. We believe the legislation raises the question of whether we are attempting to create people for jobs or jobs for people. We think that this question should be answered in opposition to going back to former administrations in terms of CETA programs.

We talk about staged transitions from support payments to Enterprise Zones earnings. Our concept here really focuses on utilizing current government stipends to various individuals as a basis for payment to work in the Enterprise Zones in terms of developing their own particular initiatives. We think on top of support payments there should be an allowance given to those individuals as pay to help them develop their own particular business enterprise. And again I speak more in detail in our statement.

Last, I will cover the first 10 pages and Mr. Scheele, my associate, will cover the remainder of our prepared statement. We think, in terms of stability, things are mostly getting either better or worse. As we look at the unemployment rates in the inner city, we can see that things are getting worse. They are not getting better. And as a consequence we think that the concept of Enterprise Zones should be utilized to stimulate things getting better.

At this point I would like Mr. Scheele to proceed.

Representative ROUSSELOT. Before we go forward, I forgot to mention, Mr. Kendricks, you operated CETA programs at one time; is that correct?

Mr. KENDRICKS. That is correct.

Representative ROUSSELOT. Where were those?

Mr. KENDRICKS. Here in Los Angeles.

Representative ROUSSELOT. In the Los Angeles area?

Mr. KENDRICKS. Yes.

Representative ROUSSELOT. Thank you. Go ahead, Mr. Scheele. Sorry we confused your title as president.

STATEMENT OF D. SAM SCHEELE, PRESIDENT, SOCIAL ENGINEERING TECHNOLOGY, LOS ANGELES, CALIF.

Mr. SCHEELE. That is perfectly all right. Mr. Kendricks does most of the work. [Laughter.]

I think one of the things you will notice is that we are talking about the particular detailed internal functioning of the organizations. One of the things that has been pointed out not only by Taiwan and Sri Lanka, but in recent business publications, is the effectiveness of the Japanese. They have in fact used American concepts and English concepts from Tavistock, et cetera. They actually believed what was taught in business schools and have gone about reorganizing their workers. We don't think that simply blessing enterprises without getting down to the level of the organization of the work itself and of the job itself can be effective.

What we are suggesting is much more worker participation. This is in this point that Mr. Kendricks referred to: Whether it is people for jobs or jobs for people? We have said to the unemployed, in effect, get skilled in an unfit fitness so that you can come into an organization that isn't working well. Instead, what we are trying to say is that there are a lot of people in the ghetto who don't have jobs who have a lot more skills about survival and getting things done than many people in the shipping department of big corporations who can't seem to get things to New York.

Representative ROUSSELOT. Or the post office.

Mr. SCHEELE. Right. What we are trying to say is that these skills can be mobilized by allowing the people to participate, not just in coming to work, but in setting the goals of the organization and in particular in having an export orientation.

To continue quickly with our points, we are saying that how an Enterprise Zone comes into being is important. This process can show how a community can help the Enterprise Zone or how larger society can help the Enterprise Zones. If there are too few zones and it happens too slowly, it will remain kind of an isolated experiment and there won't be enough learning and enough success. So after a while it will be what we found is typical in school districts, which is, the superintendent keeps one experimental program of every possible type going so that when somebody says "Are we trying this," he says, "Yes, we have an experiment," and 2 years later, "it didn't work."

So we think if you do too few, too slowly, it will remain kind of isolated. There won't be a chance to learn and make mistakes and all of the things you need.

On the other hand, if you do too many, too fast, it becomes kind of another form of pork barrel. And there won't be any learning and it will just become a mass subsidy that doesn't find out in fact how you use Enterprise Zones.

We think that there should be both newly created and established organizations involved.

And we think that, and our prepared statement details, that there has to be, and I think this was alluded to several times, really important public relations, public information efforts so that people know exactly what to expect about Enterprise Zones. And by "exactly what to expect," the reason that we are addressing things in some detail in our prep and statement—below the level that is normal for legislation, is this. This morning, in the Wall Street Journal we find the Treasury Department taking apart congressionally past legislation by the regulations on new leasing program. So here you have people who are set up to do special kinds of leasing to transfer tax credits and so forth to save some of the large-scale businesses. And here the Treasury Department is undoing it. So we feel that the intent of Congress in terms of statements like today's hearings, the legislative background work, as well as the act itself may have to be written in a more detailed way than legislation has been in the past if it is not going to be misinterpreted.

And in this case Enterprise Zone legislation probably affects more different kinds of departments. I mean there is never going to be a department of Enterprise Zones. So that translation is a real trick.

Our prepared statement details the very important themes for each zone. By "themes," saying they can be integrated concepts that this thing is exporting to agricultural development abroad. They are making refrigeration and food-handling equipment for underdeveloped countries, some type of thematic thing that says what the Enterprise Zone is about. That will help decide who is attracted to it, what kind of subsidies, and it will help the process.

In terms of what has been said about crime, I think we learned a lot in our work for the city of Los Angeles on skid row. What we found is that residents are important. You don't want to have an industrial desert. Residents keep out crime. What we consider some of the poorer housing standards that occur in these mixed-use areas are in fact, in many ways more affordable and more pleasant, a higher quality of life in terms of living than it is to be isolated in a suburb and not close to work, not able to take care of child care, and a whole bunch of other things.

We feel that it is very important, and again this was addressed before, that although it was maybe originally conceived of as largely a forgiveness-type legislative package, that there will be a big need for technical assistance if all the efforts aren't going to go to existing enterprises and if all the benefits are not going to be essentially taken by carpetbagger companies who will move in to use the benefits, but not provide jobs.

We think it is so important to provide linkages with the established business community. By "linkages," this is practically a Kissinger concept, we mean real money changing hands, not just everybody coming, like many of the people here have experienced in the Urban Coalition where everybody comes and says wonderful things, and the executive director gets a little raise and everybody goes back to business as usual. This doesn't produce the kind of results that we want.

And I think finally one of the questions that was raised, and we think can be addresed, is that when local governments are forgiving taxes, we feel, that they should also establish an investment fund. Part of the way to pay this back is not only repayment from the success of the enterprises, but in California we already have special assessment districts that could be used to essentially tax off the increased speculative land value. So there are other sources of repayment for investment funds.

We feel that it is very important, and we have talked about some special equity programs, that private capital as well as public capital be attracted to do startups. And the reason we think startups are so important is that they create many more jobs and they create jobs without the stigmas, and the titles, and the narrow definitions that keep out a lot of the jobless.

There are a lot of other collateral investment opportunities like the leasing program and provisions that Congess passed in the last tax package. We think that Enterprise Zones could get help from outsiders to support some of the real estate, insurance, security systems, building and so forth so that the new enterprises are not essentially putting all their money into overhead, but that they are putting most of their money into the sale of the new product and in exporting.

And finally, gentlemen, I think that you can ask, in terms again that Ms. Chilton talked about and also Mr. Hazlett, what happens with success? We think maybe Enterprise Zones should be set up as permanent staging zones. As hatcheries, if you will for new business. We have plenty of problems in the rest of the country, so if we are only going to have 10, 15, 20 Enterprise Zones we have to see what are the benefits through them, can be for other areas. We think as these organizations start off, grow, find a marketplace, that they can be relocated to places like Glasgow Air Force Base in Montana that has been looking for a tenant for close to 20 years. Senator Mansfield will love us.

Representative ROUSSELOT. Maybe you can find a Japanese firm now moving in.

Mr. SCHEELE. True. And there are labor surplus areas like eastern Kentucky. There are geothermal energy resources and so forth. So that once the enterprise grows up, it can move a whole group of people out and continue to grow outside of the zone so that the ongoing attractiveness of the city to rural in-migrants—which will provide a continuing source of new labor for more enterprises—and the skills that are already present in an urban area allow a business to grow.

It is like the equivalent of the old loft section. But once a new business is growing and established it can move. You could never start a new enterprise in eastern Kentucky remote from all of the support systems.

Al Shapiro, who is now at Ohio State and used to be dean of the business school at Texas. We worked together at SRI when he was studying new enterprises that were supported by the Defense Department. People used to think that they grew up around universities. And then he found that the biggest ones were Phoenix, Denver, and Tampa. In those cities, it wasn't the universities, they had universities, but they weren't big, important, scientific centers. What made new industry grow in those communities was smart money—people who knew how to loan money on things that didn't have hooves or come out of the ground. They would take young businesses, loan them money, provide them with financial advice, shepherd them into the world, and, as a consequence, many new enterprises grew up in those areas.

So we feel that it is possible to both provide the kind of training the jobless and the underemployed need to get them involved and, at the same time, provide outlets for a lot of potentially frustrated middle managers.

Everyone has been raving about the fact there is a middle manager boom. People are coming into their late thirties and there aren't enough partnerships and top positions in their organizations. I think these people are also another source of advice and help for new enterprises. Thank you.

Representative ROUSSELOT. Thank you very much.

[The joint prepared statement of Mr. Scheele and Mr. Kendricks follows:]

JOINT PREPARED STATEMENT OF D. SAM SCHEELE AND JAMES W. KENDRICKS

Mr. Chairman, members of the Committee, and fellow participants; we are pleased to be afforded this opportunity to share with you our ideas about ways to make the subject legislation more effective in producing results.

The views we present are based on our personal and corporate experiences. Social Engineering Technology has, during the last 14 years, undertaken numbers of projects to stimulate and guide economic development as well as improve personal productivity. These projects have ranged from ones with very broad objectives, such as new company towns for resource development and improved shipboard performance in the Navy, to projects with very narrow objectives, such as improved health delivery systems and educational activities. In addition, the principals have served on numbers of public committees, boards, and councils that have tried to deal with the problems of the jobless, poor, and less advantaged in our urban centers.

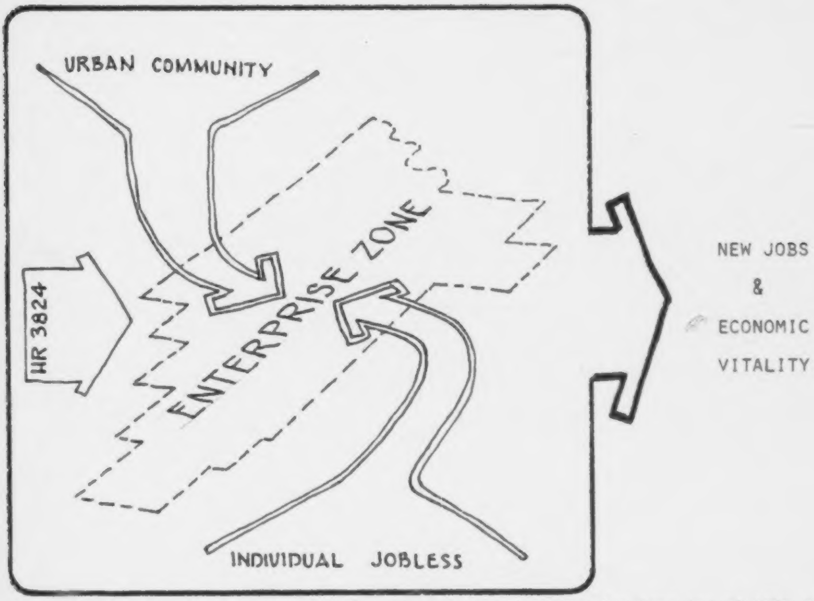
We want to convey to the committee a collection of particular points which we believe can make this Act more beneficial. We recognize that many of the ideas we will suggest might seem better left to the administrative regulations that will be prepared to implement the Act. However, we have experienced, in the past, that the clearly framed legislation that spells out both the intent of Congress and the specific types of actions and procedures which are intended is more likely to be successfully implemented. This is particularly true for legislation that pioneers a fresh approach, utilizes different instrumentalities, and envisions new relationships between the public and private sectors.

With this preface, let us proceed to our points. Some of these points involve relatively familiar ideas. Other points involve ideas which, having grown out of our particular work, we have had to name. So, these points will not be immediately recognized but the underlying principles will be familiar.

We have divided these suggestions into two categories:

(1) those which relate to stimulating the latent talents of the individual jobless, and
(2) those which relate to mobilizing the surplus resources of the urban community.

I, Dr. Kendricks, will cover the former. My colleague, Mr. Scheele, will cover the latter. The distinctions between these two categories and their relationship to the enterprise zones concept is shown on the next page.



One way to achieve the purposes of the Urban Jobs and Enterprise Zone Act of 1981 is to stimulate the productive combination of:

(1) the latent capacities of the individual jobless citizens including the underemployed who are presently working but displaced from their highest skills along with

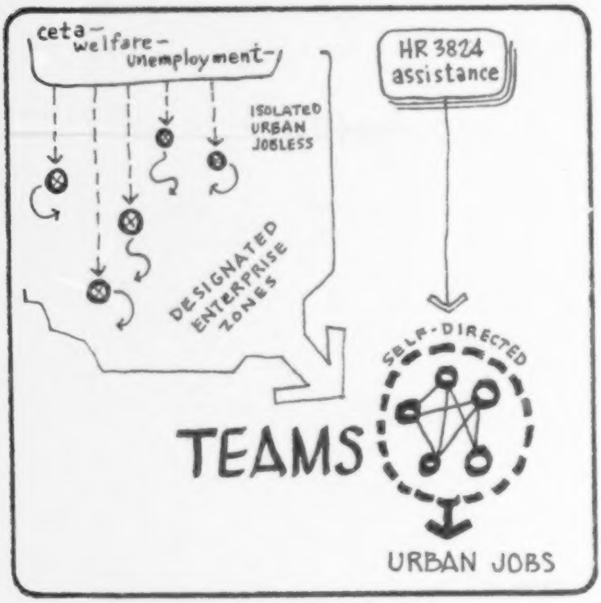
(2) the surplus resources of the urban community institutions, such as manufacturing, finance, commerce, and service organizations whether public or private.

The individual jobless have many latent capacities which are not ordinarily valued or made use of by industrialized organizations. These talents can be brought to awareness and developed in enterprise zones through sponsoring activities that involve individuals in experiential business exercises and strategic venture workshops.

The urban community has many surplus resources in both the private and public sectors. These range from financing advice and engineering assistance to management methods and marketing cooperation. Access to these valuable but underused resources can be arranged through facilitation centers which serve as broker-expeditors.

Designating enterprise zones in devastated, economically parasitic areas inside our urban centers will enable economic incentives, such as the removal of property, employment, and income tax burdens, to be targeted to specific areas. In addition, special technical assistance can be sharply focused and regulatory approvals can be appropriately expedited. These measures will unleash private enterprise to create new jobs and increase economic vitality in the enterprise zones.

Social Engineering Technology



PROVIDE
ASSISTANCE
TO
TEAMS
INSTEAD
OF INDIVIDUALS

Former administrations provided support to individual citizens. These programs primarily provided sustenance and promised to boost these individuals into the ranks of the employed. However, these past government efforts did not provide the urban jobless with:

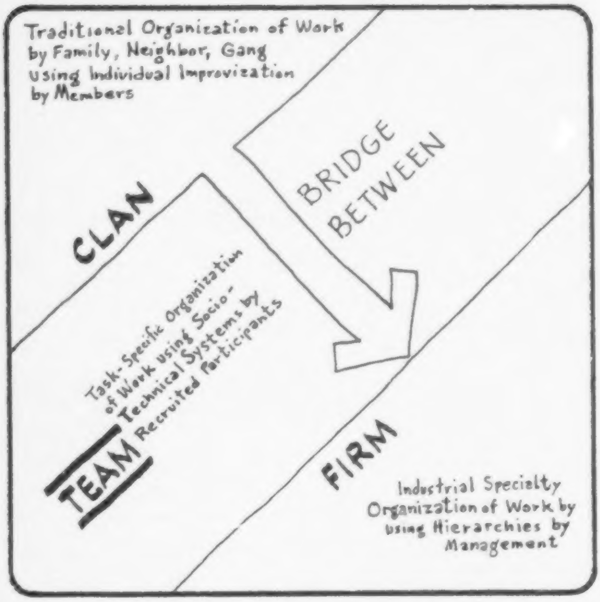
- knowledge about the workings of free enterprise system,
- skills to organize themselves to accomplish tasks, or
- ways to recognize and respond to economic opportunities.

As a result, as soon as the support payments stopped, they fell back into their former welfare-dependent (servile) positions.

If the Urban Jobs and Enterprise Zone Act of 1981 is to become a successful effort by government to respond to the dilemma of the poor, the Act should provide support in a form that encourages the urban jobless to form "teams." Such teams of individuals will have greater stability and more resourcefulness which are required to sustain efforts to attain business objectives and realize economic betterment. The Act should provide for directed experiences for teams of urban jobless that:

- demonstrate the values and methods of the free enterprise system,
- develop and exercise entrepreneurial skills, and
- show how to recognize profit possibilities and organize productive resources.

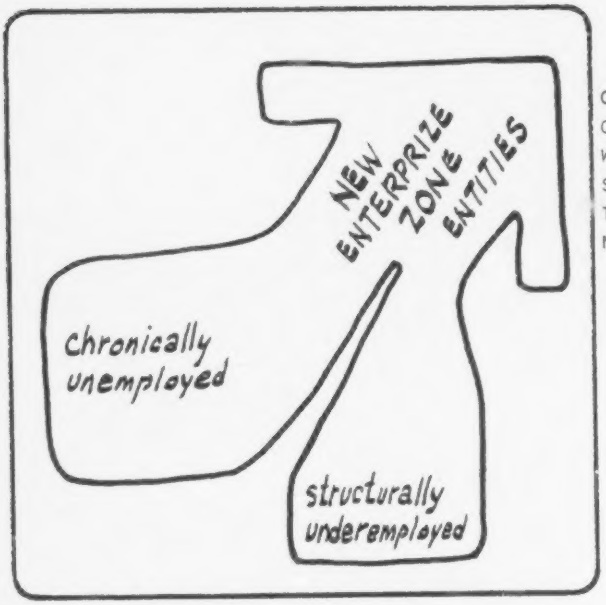
EMBARKMENT TEAMS
AS A UNIT
FOR
ECONOMIC DEVELOPMENT


Traditional Organization of Work by Family, Neighbor, Gang using Individual Improvization by Members
CLAN
BRIDGE BETWEEN
Task-Specific Organization of Work using Socio-Technical Systems by Recruited Participants
TEAM
FIRM
Industrial Specialty Organization of Work by using Hierarchies by Management

One of the difficulties in creating viable employment for the urban jobless and underemployed is the usual way jobs are defined in manufacturing, mercantile, commercial, and even public service organizations. However, it is possible to create jobs based on both the latent skills of the jobless and the out-of-fashion skills of the underemployed. In fact, this is the approach to work organization used in traditional cultures as well as the job-design technique adopted by many advanced organizations to increase productivity. Industrial jobs are largely specified based on the organization's abstractly defined requirements without regard for what skills may be at hand.

We suggest that the Act specify the recruitment and formation of embarkment teams to conceive and carry out business plans that are self-defined by the teams with some oustide technical assistance and review. These embarkments would serve as a dynamic initiative by private enterprise to both "capacitate" individuals to demonstrate their skills and revitalize the work itself to become an intrinsic reward for employment as well as the extrinsic rewards of compensation.

In addition, these new business embarkments would create large numbers (virtually 100%) of new jobs in comparison with efforts to expand established businesses within an enterprise zone. Over time, these embarkments would become established firms and provide employment mobility for their "founding members" to go out to other firms as well as others to come into the new business.



COMBINE
CHRONICALLY UNEMPLOYED
WITH
STRUCTURALLY UNDEREMPLOYED
TO CREATE
NEW VITALITY

The chronically unemployed in our society are:

- regularly without work for long periods of time,
- dependent on nonwork-related skills and traits for self-esteem,
- deprecating of their own skills and afraid to be motivated, and
- largely unfamiliar with industrially-defined work rules, and behaviors.

The structurally underemployed in our economy are:

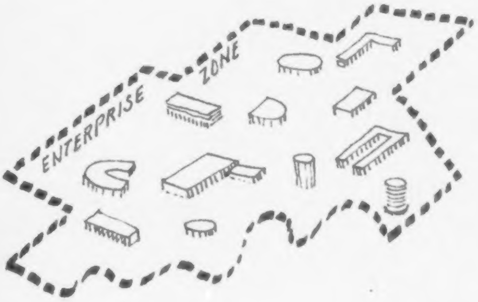
- currently working in a routine position to make ends meet,
- technologically displaced by advanced methods or new demands,
- highly skilled in narrow specialties which formerly commanded relatively high pay, and
- feeling cheated by macro-scale economic occurences.

Exact definitions and the reasons why individuals are unemployed or underemployed are not important. What is significant is that these two groups represent a potentially valuable human resource. Many of the unemployed exhibit strong interpersonal and creative capacities. Typically, the underemployed demonstrate organizational and technical abilities. With the catalyst of business leaders and strategic planners, these two unmotivated groups of individuals can be mobilized by participation in identifying business opportunities and defining action plans. Oversimplified, the unemployed see the distinct techno-organizational abilities of the underemployed as enabling the combination to really get things accomplished and are themselves stimulated to find a profitable way to direct this capacity. The underemployed see the socio-transitive skills of the unemployed as enabling the combination to negotiate markets and lines of distribution and are themselves encouraged to figure out a productive way to generate the goods or services.

PRIVATE
&
PUBLIC
INITIATIVES
FROM
NEW ENTERPRISES

EMBARKMENTS

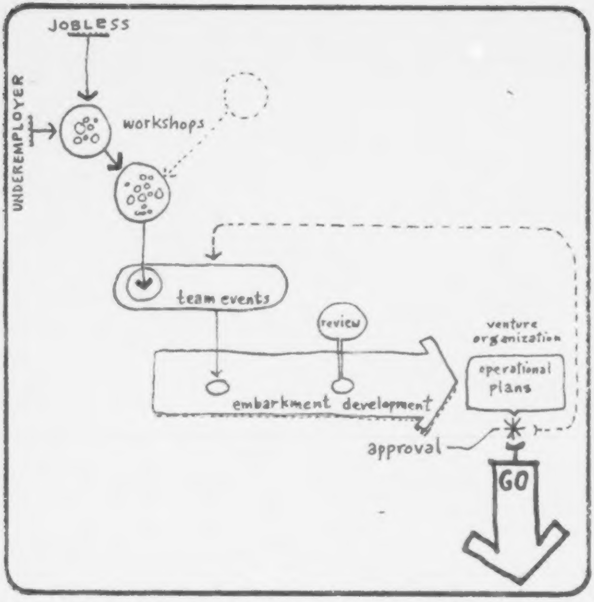
Balancing Promotion of Growth of Established Small Businesses and Larger Firms with Start-Up Ventures



In the absence of legislative prohibitions, it is very likely that established business operations will locate numbers of activities in designated enterprise zones to benefit from the economic incentives, but without contributing to the creation of permanent employment and a self-sustaining economy in the zone. Motivating business development in designated enterprise zones by reductions in employment, property, and income taxes will likely result in the preponderance of the benefits going to established businesses who will use these advantages to compete aggressively in mature markets against other unsupported businesses. Without the Act directing a proportion of the business development effort in Enterprise Zones to new enterprises seeking to establish new markets, then the preponderance of the cost for this legislation (mostly in terms of revenue offsets rather than positive appropriations) will simply subsidize established businesses to make largely physical improvements in the zones. Experience with numbers of local economic development districts has shown that permanent jobs and economic improvement are much more difficult to produce than new buildings and community appearance.

New ventures started with the jobless and underemployed can:

- increase the number of new jobs created instead of merely relocated,
- open up new markets for American products and services,
- create new productive capacities particularly in intermediate technologies, and
- permanently change the outlook and abilities of the jobless and underemployed.



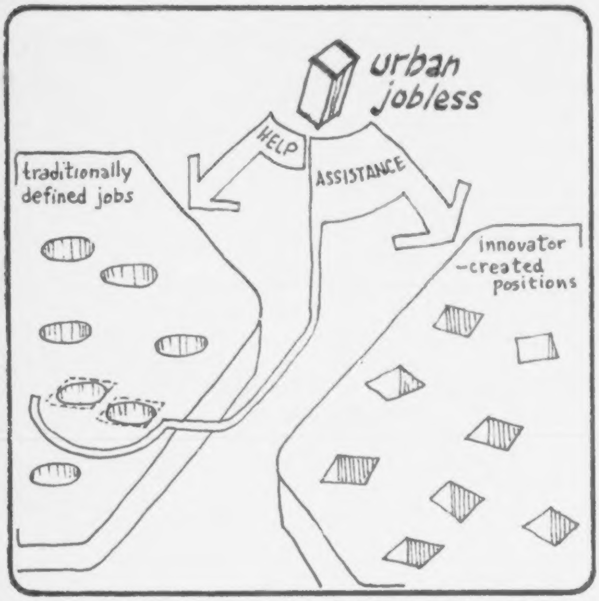
FORMING TEAMS AND IDENTIFYING EMBARKMENTS

Opportunity workshops, say 1½ to 2 days two weeks apart, might be offered to underemployed and unemployed individuals. These opportunity workshops would be the first in a series of activities that would proceed from individuals coming together to see what they might do, to forming teams, and on to planning and implementing a new venture. The process might go something like:

During this phase, the activity is provided with public support.

- recruit individuals to participate in embarkment workshops and training sessions as innovators;
- form teams in the embarkment workshop sessions to identify and define a market for their enterprise;
- provide the embarkment team with technical assistance to develop a strategic plan for their proposed venture;
- conduct reviews of the embarkment teams' strategic plans to determine whether a team returns to planning, proceeds on to implementation, or is terminated;
- connect embarkment teams with professional services to transform acceptable plans into venture organizations with operational directions;
- assist venture organizations in seeking financing;
- direct those teams who failed to develop an acceptable plan to return to further embarkment planning sessions or to seek employment based on contacts made and new self-concepts established.

This approach provides and assists individuals in building skills in business thinking, demand forecasting, cost budgeting, and assessing products services for customer requirements. In addition, this experience will instill a positive work ethic in the participants who will be more employable after participating than they were when they entered the process. We have found that pushing individuals to perform seemingly above their abilities results in greater motivation and dissipates old blocks that impeded performance of ordinary tasks.



PEOPLE
FOR JOBS

OR

JOBS
FOR PEOPLE

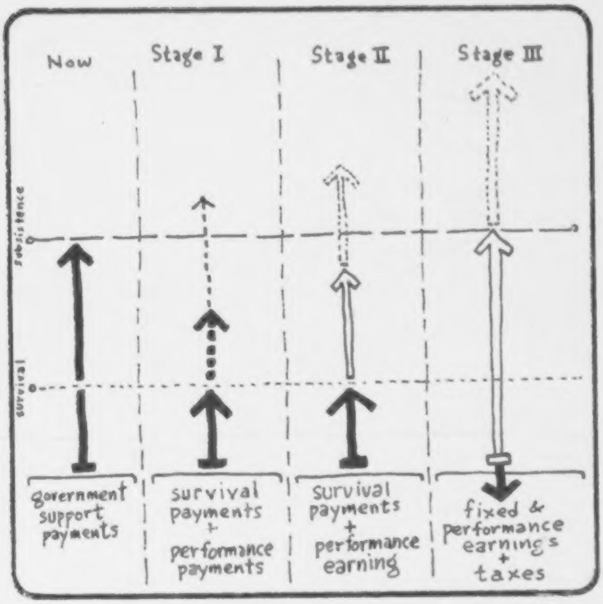
The proposed legislation speaks of providing jobs and training as well as technical, financial, and other assistance to employees and residents of the enterprise zone area. If this assistance is primarily directed to try to reshape the "urban jobless" to fit traditionally defined jobs, the outlook for success is not high. This approach has informed past manpower training and employment development efforts. These have largely not been effective in reshaping individuals for jobs.

On the other hand, the contrasting approach--shaping jobs for people--has been successfully used in starting organizations in the less developed world as well as inside advanced high-technology organizations where worker productivity has been raised by various management programs such as, job design, socio-technical systems, and quality circles where jobs are sytematically redefined to suit the people who are involved at the time.

We strongly recommend that efforts to design jobs for people be incorporated into the implementation of enterprise zones in two ways:

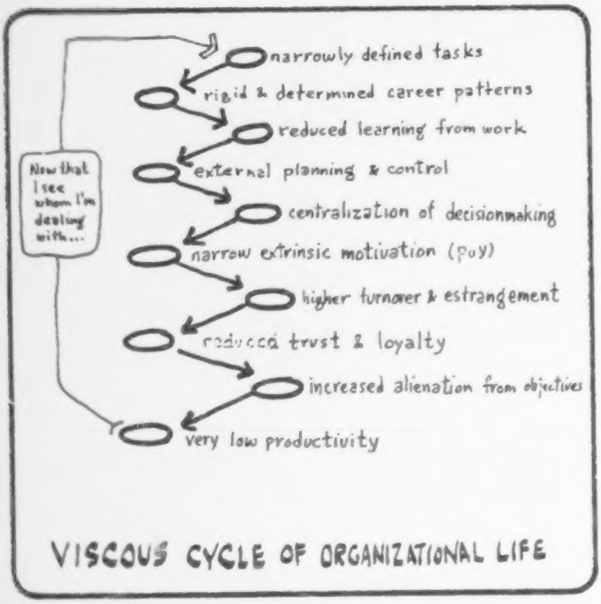
(1) to support the urban jobless in becoming innovators and thus to create positions for themselves in economic activities which they organize and operate, and

(2) to assist established traditional organizations operating in enterprise zones to engage in systematic efforts to redefine jobs for jobless residents.


Now
Stage I
Stage II
Stage III
Subsistence
Survival
government support payments
survival payments + performance payments
survival payments + performance earning
fixed & performance earnings + taxes

STAGED
TRANSITION
FROM
SUPPORT PAYMENTS
TO
ENTERPRISE EARNINGS

NOW	Current government programs providing welfare, unemployment, and other transfer payments can be said to have two components: a survival amount for absolute necessities and a subsistence amount for maintaining minimum decent standards in food, shelter, clothing, health,....
STAGE I	The unemployed and underemployed recruited to plan and implement new embarkments in enterprise zones should be compensated based on a fixed amount for survival needs (below current transfer payment benefits) plus a variable amount for subsistence needs which would be based on their "productivity" in achieving their embarkment development objectives. The maximum duration for individuals in this stage might be 24 months.
STAGE II	As each embarkment completes their development and planning activities and secures financing to commence operations, their founder-employees will shift the basis for their compensation to a slightly reduced fixed survival subsidy plus variable earnings from the enterprise based on productivity.
STAGE III	When each embarkment has demonstrated the viability of its enterprise and is ready to be sold as an ongoing business or refinanced to continue independent operations, then the employees would again change the basis for their compensation to be entirely private with both fixed and performance-based components (with the performance-based compensation made up of the individual's productivity as well as organization's profitability) plus full payment of taxes by employees and scheduled repayment by the enterprise of government loans and advances.


narrowly defined tasks
rigid & determined career patterns
reduced learning from work
external planning & control
centralization of decisionmaking
narrow extrinsic motivation (pay)
higher turnover & estrangement
reduced trust & loyalty
increased alienation from objectives
very low productivity
Now that I see whom I'm dealing with...
VISCOUS CYCLE OF ORGANIZATIONAL LIFE

STABILITY IS UNSTABLE.

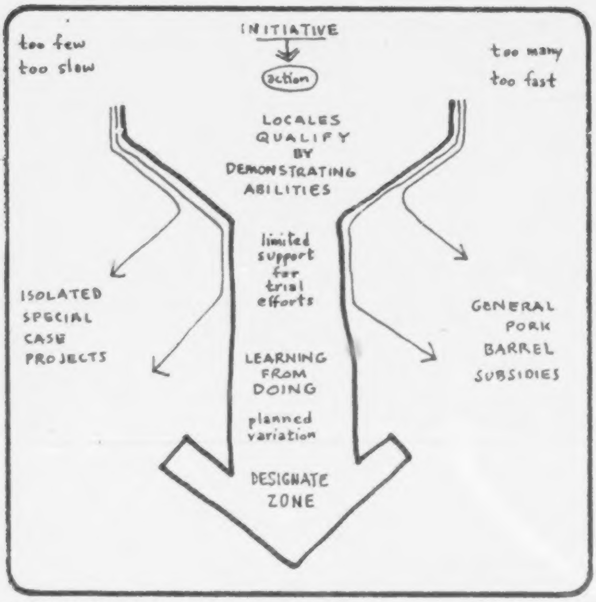
THINGS MOSTLY ARE EITHER GETTING WORSE OR BETTER.

Many authors have noted, although they have given it different names, the syndrome of urban malaise. In this syndrome, lack of skills in demand leads to unemployment that creates poverty which reduces the individual's ability and incentive to take risks and to try to find employment. Continued lack of success with engaging economic order promotes self-doubt, hopelessness, and despair, which further conceals and suppresses the individual's personal skills as well as their willingness to engage the economic system.

Within industrial organizations, a related syndrome was identified by Thorsrud called: The Viscious Cycle of Organizational Life (illustrated above). This points out what often happens inside organizations to those who make the leap from the jobless to employee. Recent awareness of socio-technical approaches developed by British and American practitioners, but more widely implemented by Japanese firms, indicates how to reverse the syndrome in organizations. This involves more widely defining tasks more often in terms of results instead of methods, leading to opportunity-suggested career patterns, increasing learning from work, requiring less external control, decentralizing decisionmaking to more autonomous individuals, who are increasingly motivated by rewards from doing the work itself,....and so forth.

These principles should be adapted and extended to address the problems of the jobless and underemployed. These individuals can be recruited as potential workers for special formative organizations created in enterprise zones we have called embarkments or for established economic activities located in enterprise zones who want to increase employee productivity.

THE STRATEGY FOR INTRODUCING ENTERPRISE ZONES

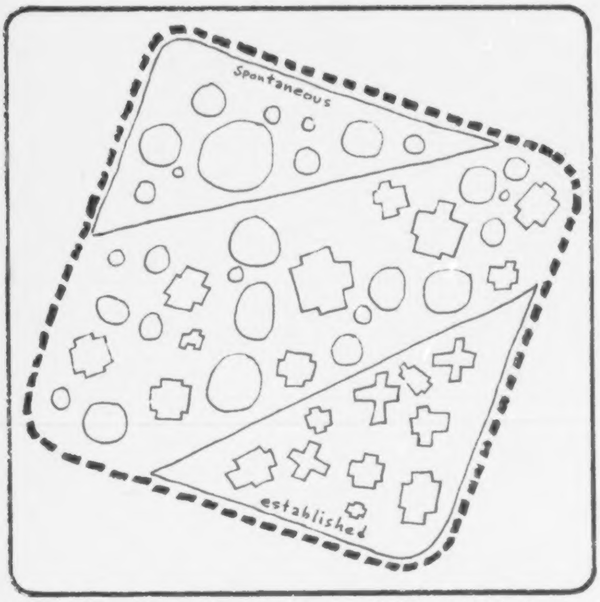

INITIATIVE
action
too few
too slow
too many
too fast
LOCALES QUALIFY BY DEMONSTRATING ABILITIES
limited support for trial efforts
LEARNING FROM DOING
planned variation
DESIGNATE ZONE
ISOLATED SPECIAL CASE PROJECTS
GENERAL PORK BARREL SUBSIDIES

Introducing enterprise zones has two aspects: scheduling the overall national pattern and sequencing the activities in any one zone. Although the art of managing the introduction of new administrative mechanism is still largely intuitive, some lessons have been learned from experience.

In the proposed legislation, it is suggested that 10 to 25 new enterprise zones be designated each year over the three years following a laws enactment. This may be too many new zones for the first year and not enough for the second and third years. Something like 5 to 7 zones in the first year might be selected to represent diverse approaches. This approach is called planned variation. It facilitates faster learning by the overall program administrations about what works and what doesn't. Emphasis is on sharing experiences between different locales.

Local initiative should be elicited to define the particular workings of any enterprise zone within clear guidelines about what is required to be accomplished. To secure 5-7 outstanding potential enterprise zones for the first year's efforts, it would be well to provide limited funding to non-profit, non-governmental "councils" in say, 25 centers to coordinate formation and programming for an enterprise zone with private and governmental organizations. Once the initial group of enterprise zones are designated based on reviews of the plans and capabilities each develops, then a larger number, say 75 target areas, can be given limited funds to set out their approach. Some of these may be ones who were not selected initially. This process of prequalifying enterprise zone leadership and plans can then be expanded rapidly to begin to have a material impact on unemployment.

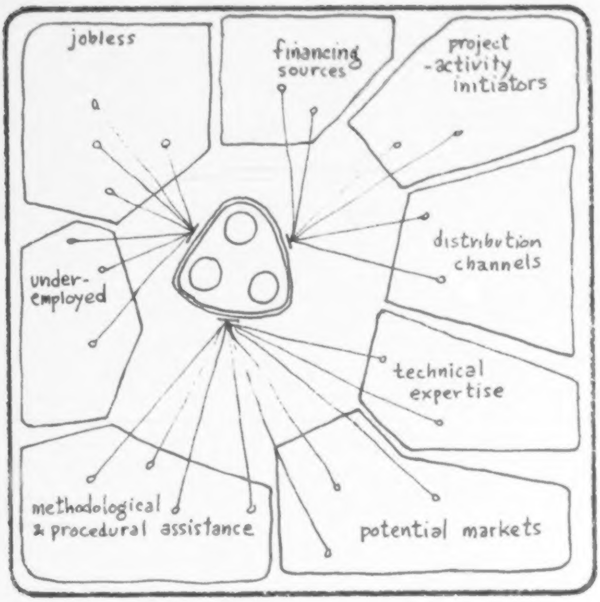
The leadership in each enterprise zone should be encouraged to learn from doing and to try diverse approaches in parallel to raise probability of success.



COMBINING
SPONTANEOUS
WITH
ESTABLISHED
ACTIVITIES

Enterprise zones can benefit from a mix of established and spontaneous activities. New businesses can demonstrate that there are better things to do and better ways of doing it. Established organizations can bring financial resources and supplier-management -distribution relationships. This stimulates the community's learning. Established organizations, existing within or relocating into an enterprise zone, can be encouraged to innovate in terms of their production methods, as well as their product markets. Innovator organizations getting started in an enterprise zone, can be directed to establish linkages to effective suppliers, distributors, financiers, professional services... as well as methods to regularize operations.

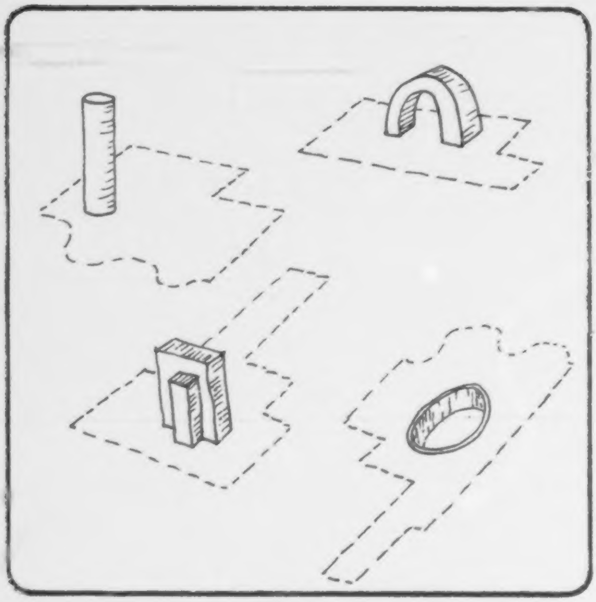
A potential block to creating jobs and economic development from designating enterprise zones is that most of the incentives will be appropriated by savvy established firms and exploitatively organized ventures which meet the letter of the law to qualify for benefits but which do not generate new kinds of employment or additional markets for goods and services. For this reason, these more subtle distinctions--like what kinds of jobs and which types of markets will qualify for benefits--needs to be spelled out. All may not be reasonable but some are necessary.


jobless
financing sources
project-activity initiators
distribution channels
under-employed
technical expertise
methodological & procedural assistance
potential markets

ESTABLISH
TARGETED METHODS
FOR
DISSEMINATING
INFORMATION
ABOUT
ENTERPRISE ZONE
ACTIVITIES

Broad general requirements for disseminating information about opportunities in enterprise zones and the results generated are indicated in the legislation. However, it is likely that much of the success of enterprise zone will depend on how effectively information about their purposes, activities, procedures, and significance are communicated both to the jobless and underemployed as well as to business and governmental leaders. Employee Stock Option Plans, so called ESOPs, have not achieved the impact envisioned for them by their proponents largely because the information dissemination has not been directed.

Specific roles for such potential information transfer agents as governmental entities, non-profit groups, professional associations, community organizations, churches, schools, and media opinion-leaders should be considered. Highly targeted communications strategies will have to be employed if enterprise zones are going to be successful in bringing together a diverse mix of cultures, strengths, insights, approaches, and skills. This requisite diversity is important to creating new embarkments with high potential for success and transferring established firms to have new economic vitality.



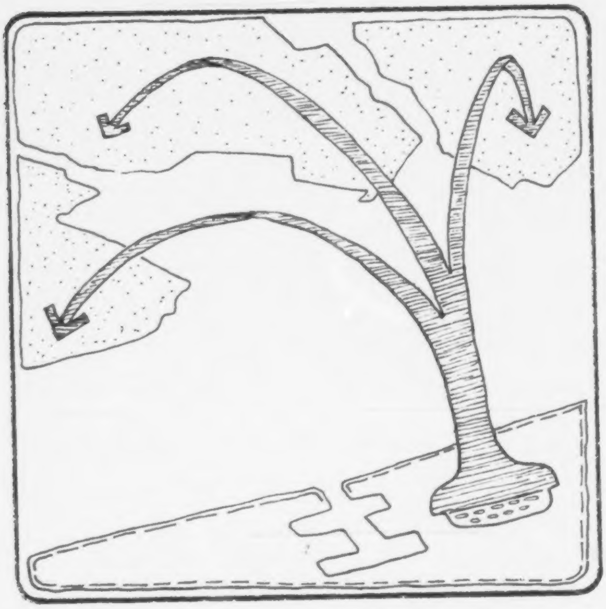
DEVISE THEMES TO RELATE COLLECTIONS OF ENTERPRISES IN EACH ZONE

Continuing specialization and improving communications have brought out a worldwide society within which all our communities exist and function. In this sense, every community needs a clear identity as a global village. In addition, communities do have relationships within nations, regions, states, and metropolitan areas. These relationships can be merely geographic--the communities might be functionally related or involved in the same type of activity. Whatever these relationships, each community can benefit from having a distinctive identity.

Having a distinctive identity or theme can enable an enterprise zone to become economically viable. Further, it can stimulate continued economic development. Themes for enterprise zones might be selected for their strategic utility, say, to carve out an attractive long-term role for the zone's primary economic activities. It is recognized that many, if not most, activities in any zone would not be distinctive but simply the expected complement of secondary support functions. But establishing a clear theme can help attract primary economic activities that are complementary. This, in turn, can lead to the establishment of a highly-efficient techno-commercial infrastructure of secondary services that can provide a world-scale competitive edge to the primary economic activities located in the zone. For example, Nashville, Tennessee,and Austin, Texas,have established clear specialty themes in the recording music field which has benefited the local economics.

Social Engineering Technology

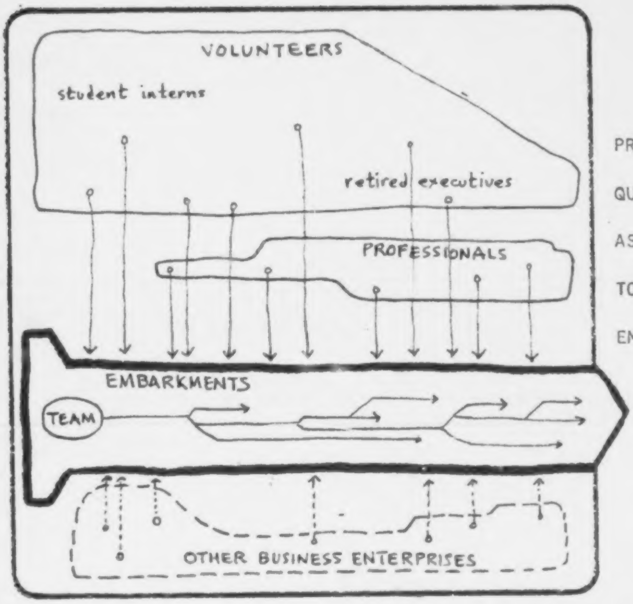
DIRECT ATTENTION OF ENTERPRISE ZONES TO EXPORTING



President Reagan stated in his recent speech to the World Affairs Council, in regard to America's new approach to less developed nations; "Some people equate development with commerce which they unfairly characterize as simple lust for material wealth." "Others mistake compassion for development and claim massive transfer of wealth, somehow miraculously will produce new well-being." "Such definition;" he continued, "misses the real essence of development." "In its ultimate form, development is human fulfillment--an ability by all men and women to realize their full potential, to go as far as their God-given talents will take them."

Parallel principles of enabling individuals to realize their full potential through commerce motivate the idea of Enterprise Zones. Also, similarly, stimulating sales within the zone, as within a developing nation, increases the local quality of life but does not create wealth (positive trade balances). "Trade" of product by enterprise zone entities outside the zone, but within the nation, will benefit the zone, but not directly benefit the nation. There are indirect benefits through lower costs to provide public services within the zone and some increase in tax revenues. However, the products and services from the zone will have competitive advantages over products from the rest of the nation. This may cause resentment from unassisted domestic suppliers—particularly in difficult times.

On the other hand, an emphasis on product and services for export will produce benefits for both the enterprise zone and the nation. Overseas buyers often want products and services with specialized features and adaptations that are less technologically advanced and asthetically finished than typical U.S. offerings.

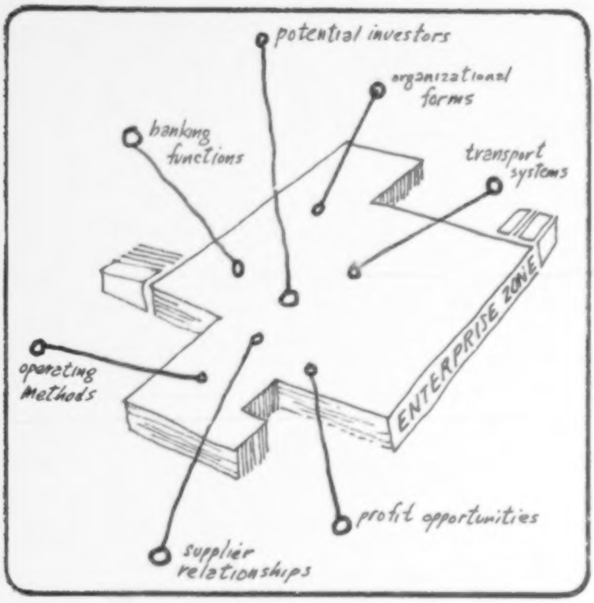


PROVIDE
QUALIFIED
ASSISTANCE
TO
EMBARKMENTS

The larger metropolitan community contains sources of professional and volunteer assistance which can greatly benefit both new emparkments and established businesses within designated enterprise zones. Technicians can provide "how to" methods to embarkments participants while playing different roles and wearing different hats. For example, technicians may be mentors and facilitators, teachers, or planners. Many of these people will be volunteers while others will be paid consultants.

In addition, universities and colleges near the enterprise zones and their embarkments may, perhaps, be encouraged to initiate internship programs offering credit to student who work with embarkment teams to translate their theoretical understanding into practical application. Retired executives are a potentially powerful source of technical assistance -particularly when these cadres are coupled with other professionals practicing in the business arena.

The principal point is, of course, to provide a high degree of technical assistance to both established businesses as well as embarkments initiated in enterprise zones.

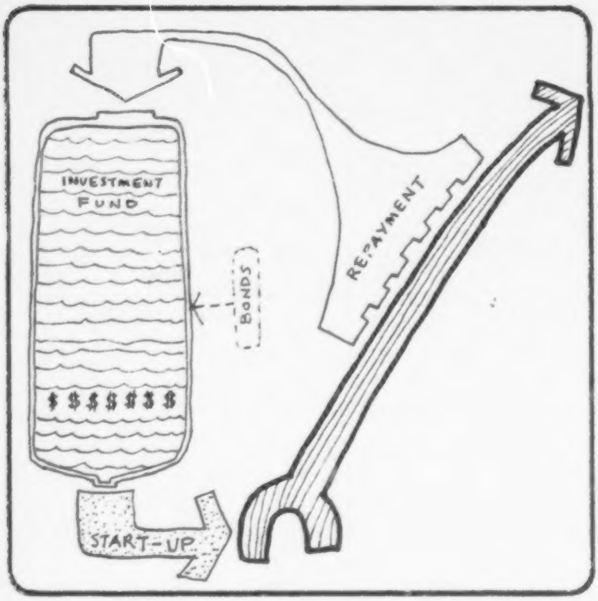

potential investors
organizational forms
banking functions
transport systems
ENTERPRISE ZONE
operating methods
profit opportunities
supplier relationships

CREATE LINKAGES WITH THE ESTABLISHED BUSINESS COMMUNITY

Linkages and networks need to be established between those involved in enterprise zone activities and business men in the metropolitan area in order to:

- create effective and efficient supplier relationships,
- promote adoption of advanced operating methods,
- improve the supply of capital investment available to expand businesses with the zones,
- exchange ideas about what works and what doesn't,
- develop improved distribution chanels for the product of firms in the zones,
- find out about new market opportunities,
- establish low-cost transportation options for goods and people,
- enhance the spillover benefits to the larger community from the thematic primary economic activities located in the zones,
- generate wider employment possibilities for those working in the zones,
- increase the attractiveness of employment at firms located in the zones for executives and professionals in the metropolitan areas, and
- help in resolving problems between ativities located within the zones and those from the larger community.

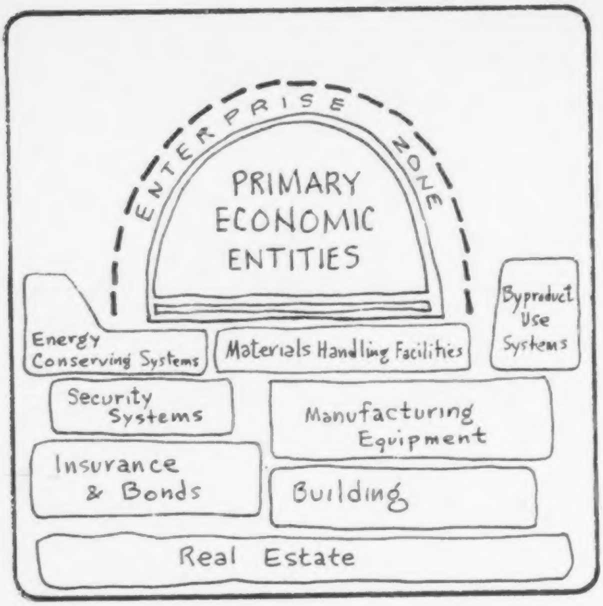
Numbers of business and community forums exist which can be used to facilitate linkages. These include specialty associations, geographically-organized business associations, fraternal and religeous groups, and philanthropic organizations. The legislation might create small but meaningful incentives for these linkages to be established.



ORGANIZE
STATE OR LOCAL
FUND
TO PROVIDE
SELF-LIQUIDATING
FINANCING

One critical aspect for generating jobs through the start-up of new businesses and the expansion of small established firms is obtaining early venture financing. Established funding sources typically seek investment opportunities in ventures which have achieved more maturity and are pursuing more technologically sophisticated markets than would be true for the larger number of promising ventures that could be expected to be "boosted" through enterprise zones. Studies of new ventures have shown that smart money (interest in investing in start-up businesses with promise) is more important than technical wizzardry (the presence of universities and research centers) in prompting new business development. Organizing a reliable source for early venture financing interests in the larger community can provide a strong impetus for enterprise zones.

One attractive approach would be to enable the organization of state or local Enterprise Zone Investment Trust Authorities,(EZITAs). The capital investment pool might be raised by the EZITAs from tax-exempt bonds which would carry coupons thus presenting an equity investment in a "mutual fund" cross-section of borrowers in the enterprise zone. Borrowing would secure the venture loans with a 15%-30% equity stake. In this way the EZITAs could compete effectively to secure funds and make them available at comparitive advantages to embroyonic businesses in the zones. Each EZITA would have a Board of Governors made up of highly respected local leaders from business, government, and the professions. This would assure the integrity of loans to new firms and provide a source of wise counsel to borrowing entreprenuers.


ENTERPRISE ZONE
PRIMARY ECONOMIC ENTITIES
Energy Conserving Systems
Materials Handling Facilities
Byproduct Use Systems
Security Systems
Manufacturing Equipment
Insurance & Bonds
Building
Real Estate

DEFINE

COLLATERAL

INVESTMENTS

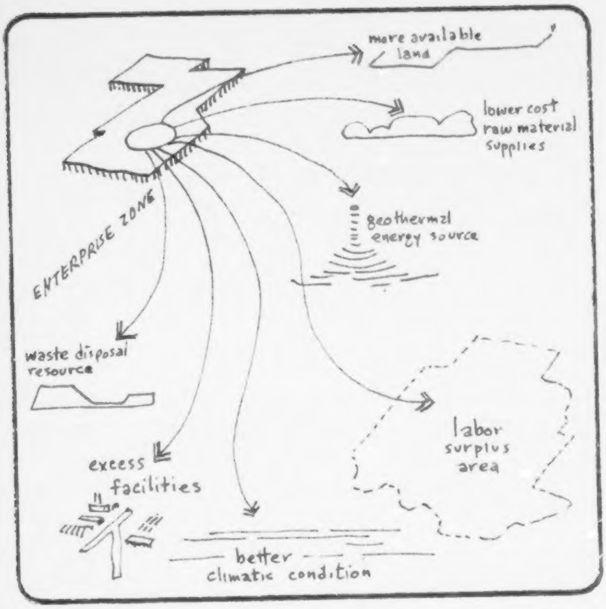
OPPORTUNITIES

FOR

INCENTIVES

Each job-creating business activity located in an Enterprise Zone requires substantial investments. Some of the required investment funds can come from venture capital sources invested directly in these primary economic entities. The scarce resource of venture investment can be materially enhanced by establishing incentives for collateral investments in assets used by these embryonic businesses to operate. Separately financing these capital assets which are not unique to the venture's primary business serves to multiply the pure venture funds available.

The diagram above indicates some of the types of collateral investments which could be separately financed through secured investments from the larger community. To competitively attract funds for these investments will require an appropriate combination of incentives such as partial tax exemptions, extra rapid depreciation, limited equity guarentees, liberal resale provisions, and so forth. Nation-wide management-financing organizations might be set up to provide each type of specialized collateral investment to business in numbers of different enterprise zones. Two examples would be a facilities leasing firm for buildings and an insurance bonding company for coverages who would specialize in enterprise zone situations.


more available land
lower cost raw material supplies
geothermal energy source
ENTERPRISE ZONE
waste disposal resource
excess facilities
labor surplus area
better climatic condition

RELOCATE
MATURING
ENTERPRISE ZONE
ACTIVITIES
TO
SPECIAL
OPPORTUNITY
SITUATIONS

While this eventuality is somewhat down the road, it would be useful to consider the potential ongoing nation-wide benefits that might be generated from enterprise zones. If successfully organized, enterprise zones can be expected to become modern "seed beds" for new ventures. As of the ventures grow and prosper, it would be useful to develop a systematic approach to both advantagously further the ventures expansion and claim additional economic benefits for the sponsoring nation.

This concept has t aspects:

(1) enterprise zones can develop and add to their specialized economic role as a brood hatcheries for the care, feeding, and nurturance of new ventures; this is a much needed national capacity; these activities need the diverse skills and resources found in large metropolitan areas.

(2) the nation has numbers of unexploited and underutilized resources which could benefit from being used by vital and growing economic activities; examples of some kinds of available resources are pointed out in the diagram above: these resources can materally assist the enterprise-zone-nurtured businesses to continue their growth and remain competitive world-wide.

The quality of the investment of the founding ventures and early emplo businesses growing up in enterprise zones should support and sustain a relocation to another, possibly rural and remote area. In fact, these enterprise-zone venture groups, as a new wave of settlers, could have a markedly positive effect on the social development and requisite diversity of the nation.

Representative ROUSSELOT. I now have a list of at least 100 questions in my mind as a result of all the things you have stimulated, gentlemen, and especially to do with all your charts and graphs. Who does your artwork? Anyway, thank you very much for your presentation, both of you, no matter who is president of your company. [Laughter.]

Now, let us go to questions and answers. First of all, I would like to pose a question myself, and then we will proceed. Is there general agreement among all of you that we need some kind of an Enterprise Zone, or is there any disagreement with that? Does anybody feel we shouldn't be doing it, I mean, that the Enterprise Zones strategy is a waste of time or something?

OK then, fine.

Now, you want to start Congressman Dixon?

Representative DIXON. Just two questions to open it up. I think Mr. Scheele indicated clearly that whatever legislation ultimately is enacted by Congress should generally be drafted with more detail than we normally do, that we should not leave this up to agencies to interpret. Because in that interpretation we can never verify whether the system will work or not. And so I think that is a very important point that quite frankly I had not paid much attention to.

And I just want to ask one question at this point in time. Except for Mr. Kendricks and Mr. Scheele, I don't believe the other witnesses talked directly to any job-training component in any of the concepts involved. I wonder if there is a general feeling that there has to be some kind of job training involvement. I know that Mr. Hendricks talked about the team concept, which as I read the report involves a job-training component. But in general, Mr. Hall, in England do these businesses have job-training components? Because that seems to me that is one of the inherent problems, that although you may move an industry into a particular region, you are not going to find people within that area that immediately can come in and take the kinds of jobs that the industry needs. And so I know that as a very important part.

And I don't know if I missed it, but it seems to be paramount to the success of any program that involves employment in the urban hardcore areas.

Mr. HALL. Well, the answer is that there are industrial training programs in Britain conducted by industrial training boards for each industry. Perhaps oddly the Enterprise Zone legislation in Britain specifies tht enterprises in the zones do not have to contribute the standard levied to those industrial training boards, although of course they get the benefit without the cuts.

Representative DIXON. So you are saying that the structure in England is that there is an independent agency that does job training and these businesses utilize that agency to develop training?

Mr. HALL Yes.

Representative DIXON. Maybe similar to CETA programs in the United States in their concept?

Mr. HALL. Somewhat. I think, though, that there is no direct linkage. And I think here we come to the point of whether special forms of training are not needed in the Enterprise Zones very closely related to the characteristics of the people in them, which is the point of Dr. Kendricks' statement.

Representative **Dixon**. I wonder if, as Congressman Rousselot got consensus, that we should move forward, is there any consensus that there should be some linkage with job training?

Mr. **Kadlec**. One thought on that is, and I think the point was made here, that people in the inner city have skills. What they need is opportunities. And training someone in the abstract for a job is not nearly as important as getting them a job. I mean, to train somebody for a job in the abstract is not nearly as good as getting them to work so they can see the next job in line and start working toward that job. What you have got to do is——

Mr. **Scheele**. He will invent the job.

Mr. **Kadlec** [continuing]. You have got to get people to work. And once they are at work in the workplace and they can identify with how to get a pay raise, how to make their family better off, the training comes automatically. It is in the employer's and employee's interest to increase the employee's skills. But I don't see the benefit of a special abstract job-training program that is unrelated to the workplace itself.

Representative **Dixon**. I know that Merv wants to get in. Then maybe I misunderstand. First of all, there is no mention of whether this kind of urban zone would be targeted to certain kinds of industries. But I know that in certain industries there is a great deal of high technology involved and that people that live in certain areas that the zones may be targeted for don't have I am not saying the ability, but don't have the skill level. So if I were to move a highly technical industry into an urban zone, I would still probably maintain most of my employees, because there is no responsibility on me to have a job-training component. And I can't find within that class of people in that district the ability to perform the kind of work I need done.

Mr. **Kadlec**. Even high-tech companies depend on and need low-skilled people. And you have got to get them started somewhere. Not only that, high-skilled companies employ high-skilled people who spend money. They buy lunch, get their car serviced. They also employ janitorial services, all the things that use the skills already in place in the inner city.

To use Ms. Chilton's image, which I think is wonderful, about gee, if you said to the pioneers or the pioneers said, "I want a guarantee when I go West," what would have happened if we worried about what kind of jobs would have been there and if we worried whether too many trees would have been cut down. You can't plan the future.

Representative **Dixon**. Let me ask it another way to you. Would it be a fair statement to say that a job-training component will flow naturally from this and that there is no need for Congress to address itself to a training program as a prerequisite for organization moving?

Mr. **Kadlec**. That would be my view.

Representative **Rousselot**. Or to have a tax incentive to encourage training?

Mr. **Kadlec**. That might be part of the program. I would not have an abstract job development program as part of a condition for participation in an Enterprise Zone. One may want to do that in any case. But I would not make it part of the law.

Representative DIXON. Would you tell me one more time why?

Mr. KADLEC. Because the notion here is that if you give companies an opportunity and people an opportunity to prosper, they will find the best way to acquire the necessary skills. And job-training programs more often than not introduce other considerations, be it political, legislative, regulatory compliance, whatever they are, and probably get in the way of the dynamic solution.

The idea is, you can't anticipate what the future is. What you want to do is get people to work and let them see the opportunities and acquire the necessary skills. If the output in the inner cities double, it is hard for me to believe that the inner city wouldn't be better off. Now, whether it could be just a tiny bit better off if you had a job development program, maybe. But the first objective is to get the opportunities within the inner city doubled. And if you focus on that exclusively, you will get a better program than if you worry about getting that last 1 percent benefit.

Representative ROUSSELOT. You are not sure in any legislative proposal we have that you are required to devote resources to job training?

Mr. KADLEC. Job training would be fine. But to the extent it gets in the way of—I wouldn't put conditions on companies moving into the inner city. If a company wants to move into the inner city and start increasing the output of the inner city, I would say that is the No. 1 objective.

Representative ROUSSELOT. Ms. Chilton, I know you are dying to get in here.

Ms. CHILTON. Yes. Oh, I am so excited.

One of the things that we did in our research was ask the question, "What do you feel is the most important concern that Enterprise Zones might indicate as far as participating as a businessman?"

And across the board from small to big to minority, a major factor was skilled labor. In addition it was pointed out repeatedly that the type of businesses across the Nation was changing rapidly. We are not the heavy industry country we used to be. I don't know whether or not we can recover in that area. But our technology is changing so fast that some of our skilled people have not been able to keep up.

The most critical issue that was raised was the need for financing. That is for capital and long-term financing. Second was training. Along with a lot of suggestions on how to solve the problem. But again, one issue that came out clearly across the board was that it is costly to train someone in a high-technology field. Nevertheless, it is essential, and it also gives the unskilled person a carrot to work for. In addition, middle management needs opportunity where they can work up the scale rather than be kept at a lower level where they may have been in the past.

However, by far the majority felt that, in general, the CETA eligibility criteria of the current legislation would be a disincentive for small businesses.

Representative ROUSSELOT. Would be a disincentive?

Ms. CHILTON. Disincentive.

Representative **Rousselot**. That is the way the proposal is written or the way it would be advocated?

Ms. **Chilton**. It is not advocated for the current Kemp-Garcia; the reason being, that the minority people we talked to said they would not want to hire these people because—in most cases, the CETA program had been used as a jobs program rather than a good training program. There were, of course, references to examples of exceptions. Most said, "We would rather train the people on the job." They felt that some kind of tax incentive or benefit would be better, rather than another training unit out here.

Now, there could be the exceptions of the IBM program that you have here that is particularly well received in the industry. They are teaching computer word processing people. That is a technical skill that would be different. But some feel a combination of both would be appropriate.

Representative **Dymally**. Ms. Chilton, I want to followup on Congressman Dixon's question and Mr. Kadlec's response. Your are saying, in effect, just don't open up a school here and begin to train people without knowing whether there are jobs over there? In other words, we may not need auto mechanics anymore. We might just sell a car. So we can't even buy a new one.

Mr. **Kadlec**. I guess what I believe is that individuals now residing in the inner city are not inherently inferior people. We believe they can, when they see opportunity, take advantage of it. In fact, I think that that is the character of the inner city. The problem is the incentives are now so few in the inner cities that standard of living maximizing behavior not working is terribly good for overall society. To say to these people, "Look, we have to first train you before you can go to work," I think belies their native abilities, and what you want to do is get them to work where they can see the opportunity to get a promotion and to acquire specific skills for a specific job.

Representative **Dymally**. Which leads me to the program you had in California now called CETA, which is a take-off from CETA, except that under this program—Ms. Chilton, are you familiar with this program in California? You train the employee/trainee on the job. They get a job first and then they begin training on the job. I have taken that California model, have introduced legislation which, in fact, says a person gets a job first. Then on the job you train that person so they are not being trained for a job. They are being trained to be working on the job. And the employer gets—right now they get local incentive of the person that is the recipient of the benefit payments. And I am proposing they get a Federal incentive.

Mr. **Kadlec**. We support that completely, that kind of job program.

Representative **Rousselot**. That is more of on-the-job training in connection with a job, being skilled, rather than training someone for a job which may or may not exist. Is that what you are saying?

Representative **Dymally**. Yes.

Mr. **Kadlec**. Yes.

Representative **Rousselot**. Mr. Kendricks, I know you have been trying to get in this.

Mr. **Kendricks**. I would like to speak to Congressman Dixon's point.

One of the things we discovered in running CETA programs was that the job was not a real incentive, I mean the make-work jobs. What those people needed in terms of that particular program which we tried to administer in a novel kind of way was incentives. But those incentives came with being given the opportunity to make an honest living. What I mean by that is that if we went in and attempted to train people to write résumés or to prepare them to get up and go to work on time, they sort of laughed at us. But what we did was, we said OK. We are going to create business which you will operate. I took a group of ex-offenders and I said to them that "What I am going to do with you guys is to allow you to open a store. And you are going to run this store. You are going to do the buying. You are going to mark it up. You are going to run the store. You run the cash register. Do the books. I mean, you will run a business under this program."

Now, given, that was a very liberal view of the legislation and the guidelines. Nevertheless, the difference between attempting to train people for some nonexistent job as opposed to those guys going and running that program, I mean, those guys——

Representative **Rousselot**. Was this a retail store?

Mr. **Kendricks**. This was a co-op.

Representative **Rousselot**. Where?

Mr. **Kendricks**. Los Angeles. And what they were required to do was get up in the mornings, go make the purchases at the market. I didn't have to get them out of bed at 3 a.m. in the morning, because the incentive was money. They increased their salary based on their ability to generate income. And to generate income meant they could buy additional equipment, cash registers, cold boxes, and so forth.

We didn't have the money in the budget to buy these items. So the only way you get to the point where you make money for your family is to sell. You have to buy cheap and sell a little higher. They understood that and they were able to do it. But in order for them to do it, we had to give them technical assistance. How do you buy produce? You just don't go down to the market and buy produce. There are some linkages you have to make there.

For example, you have to get to know the guys. I mean, know them in order for them to give you breaks on produce, potatoes, lettuce, apples, oranges. I mean, there is a guy selling that stuff, and once he gets to know you he tells you "I got some pretty good Rome apples today and I can let you have such and such if you take so many."

These guys learned those skills. There were buying skills involved in addition to keeping the books: How much did we lose? Did we have losses? I mean they learned skills by doing and running the business.

Now, if you don't have an availability of a program or a concept involved where these skills can be developed, then what you have is people going in at the bottom of some company, and you are presuming at this point that all inner city residents want a job. I mean a job, you know. I don't mean to enter in and have an opportunity to get a piece of the action. I mean a real situation where they can begin to take the risk, to own a business, to get the skills necessary to do that. But they come with certain skills. Those skills have to be enhanced. And there is no getting around it. You can't tell people "I want to get in and try and open this business and project a business plan."

I mean, he says "What do you mean?"

What we tried to do in that program was to develop skills in people who supposedly came to us with no skills, those things that they really already knew, but had no technical aspect to them. So we tried to build on them. If I am making any sense in terms of what I am trying to give you, that is how I see the kind of training programs, needed. I mean, I am really saying that I don't want to train or we shouldn't try to train people because it gives them bucks for training. I mean, what are we training them for? If there is something there, if you have an enterprise or venture that they can begin to implement for themselves, then, yes, they have an entry level job because their business is brand new.

They are entering into the market. They are facing all the barriers of entry into an economic situation. So you are entry-level. But you are also doing all the skills that are happening at RCA or General Motors or wherever. I mean, you have to sell the product. You have to buy other products. You have to have the raw materials. You have to keep books. You need personnel policies. This stuff doesn't just happen to you. Somebody has to help you with it.

Representative ROUSSELOT. Mr. Hall, I know you wanted to say something.

Mr. HALL. Just two points. The first directly follows on Mr. Kendricks' and some more academic comment. I think there is very good evidence if you look at the unemployed, especially unemployed minorities in the inner city areas we are talking about, there is a tremendous amount of energy and a tremendous amount of enthusiasm. But it is just run into the sand.

There was a very interesting book published last year by a black sociologist, Douglas Glasgow, called "The Black Underclass." It is an in-depth study of black unemployed youth in Watts. It goes back 15 years. It shows how these young men because they were young men had been systematically discouraged out of the labor market. They have tried again and again to get jobs, but they just couldn't get them. And he shows after the Watts riots when schemes were developed to try to bring some of these youths in the economy, they set up an organization called Sons of Watts, which in fact created new jobs within the area. Some of these very people who had been involved in lives in crime were running a gas station quite successfully for some years.

So I think that the lessons does get under the line that you need create the opportunities on the job in the area rather than laying down big bureaucratic programs from outside. That is one point.

Point 2 is, we have heard about the new high-tech jobs. But there are two points I think to be made against that. The first is that something like two-thirds of all jobs in the United States are now service industry jobs, not manufacturing jobs at all. So when we talk about high-tech, we are not generally talking about high-tech manufacturing. Many of the jobs in the service industries are still fairly low-skilled jobs. And in some of these the skill requirements are actually falling.

We have heard a great deal about word processing and how that is going to need new skills. But the skills needed really for word processing I think could be taught to an average intelligent person in about a couple of hours to get them started. And furthermore, it is very interesting to notice that the development of these programs for these word processors is such that you can now get elaborate dictionaries that correct spelling errors. So if you have basic deficiencies in your education, you don't have to worry about it so much. The computer will correct them for you.

And I think on this question that some of the academic experts are saying we are actually getting a deskilling process taking place in some of these jobs. That could be very useful for many of the people in these inner city areas if they could be brought into the job.

Representative DYMALLY. In the area of service jobs, which part of that area is the fastest-growing?

Ms. CHILTON. Service jobs?

Representative DYMALLY. Yes, service jobs.

Ms. CHILTON. In Indianapolis and Cleveland, a couple of cities we visited, they were talking about the fact that that area was becoming a warehousing area, a staging area for manufacturing elsewhere. However, warehouses don't create jobs. But they felt that a good deal of support maintenance, as they call it, not necessarily janitorial jobs, but followup with regard to machine maintenance, was becoming more and more prominent. We are more machine-dependent, was what they were talking about.

Representative ROUSSELOT. Senator, you had a comment.

Senator HAYAKAWA. I have been fascinated about this talk about on-the-job training versus training for jobs in the abstract. I was especially interested in Mr. Kadlec's comments on the matter. He mentioned in passing the matter of the exemption of youth from minimum wage. I think this is the most important point you made. That is, what is it that stands in the way of finding your first job, that the minimum wage at the present time is $3.50 an hour, and you are 16 years old, and you are sick and tired of going to school. But you have had no previous job experience or skills. Who is going to hire you at $3.50 an hour? There is no way. And it is all right to say you have to start at the bottom of the ladder.

But if the bottom rung of the ladder is 10 feet above the ground, the taller people are going to be able to get to the bottom rung first.

The idea that you should exempt youth from minimum wage is a terribly important one. And I am—well, that is one of the first things I introduced in the Congress. And I got there in 1977. It never got anywhere beyond that. But this time with Republican Rousselot we made an attempt in the House once to amend the minimum wage bill to provide that. But it didn't hold up in the Senate.

Mr. KADLEC. The bill should be entitled "The Teenage Employment Act."

Mr. SCHEELE. People mostly forget that schools in this country were invented to keep the youth from competing in the job market.

Senator **Hayakawa**. That is right. But I think one of the things you can do is——

Representative **Dymally**. Is that why we have so many Ph. D.'s?

Mr. **Hazlett**. Why you have so few young Congressmen.

Senator **Hayakawa**. An advantage of the Enterprise Zone idea is that you list the rules in so many areas where rules hamper the development of small businesses. And among the rules that you can lift is the minimum wage rule. And when you talk about job training, I was reminded of my own experience with on-the-job training. When I was a student at McGill University in Montreal, I found an opportunity to become a taxi driver. But I knew nothing about the geography of Montreal, which is especially complicated because there is a French section of town and there is an English section of town, and the place is awfully hilly. And they gave me no instruction whatsoever. They just gave me a cab and said "Go to work." So I had to have on-the-job training right there and then, learning where some places are from the customers themselves who knew where they lived. I had no idea.

But it is a very, very fast way of learning. And I still know a lot of Montreal I would just as soon forget. But it applies to so many different things. I was hired as a teaching assistant at the University of Wisconsin. I had never taught a class before. No one gave me a course in education. No one taught me especially how to deal with freshmen. The subject matter, I was just thrown in front of a class of 25 kids and they said "You are responsible to see that they are taught to write well."

It took years, I am sure, before I was a really competent professor of English. You had to start somewhere. But you had to learn yourself. But the important thing that, Mr. Kendricks, obviously you yourself had pointed out, is that you don't train for a job in the abstract. You train for a job that you actually have. And if it is your job to handle produce and you know you have got to get to the produce market at 3 a.m. to get the fresh watermelons, to get the fresh vegetables that are going to be marketable in your store, you damn well get up at 3 o'clock in the morning, because you know your survival depends on it.

If the whole idea of Enterprise Zones is to liberate people from all the restrictions of government, taxation, corporate taxes, et cetera, et cetera, that prevents small businesses from flourishing, I think we should seriously consider reducing the number of regulations governing these places, leave things to the enterprise and the ingenuity of the businessmen and the workers who go into the places and have absolute minimum of regulation, including the regulation of wages.

Representative **Rousselot**. My followup question to that is whether we help the residents of the zone more by mandating training programs, as through tax incentives, reduction of minimum wage for youth, reduction of the payroll taxes, or all of the above? What is it that you say to us is needed in this legislation to encourage the employment of people who live in the towns? And, how much of local law do we have to preempt?

Mr. **Hall**. If I could take Senator Hayakawa's point, it is too early, I fear, to say what is happening in the British Enterprise Zones, because they only effectively came into being this summer.

In fact, some of them, I believe, are just now being brought into business. And I think it will be some time before we find out what the pattern is.

Representative ROUSSELOT. That is what we are trying to say about the Reagan economic program. Give it a little time to work.

Mr. HALL. There are some preliminary indications from one of these zones that I have seen that most of the preliminary inquiries have been from local firms just outside the areas indicating that there may be movements of existing local firms into those zones. Whether that is good or bad, I think that is open to discussion.

I don't find too much evidence so far that genuinely new local enterprises are being created of the kind we were talking about just before the break, and that would be my acid test about whether the British zones or the American zones in the future are going to work.

Representative ROUSSELOT. How many new enterprises are formed in these zones? Can anybody give us a followup of what happened in Taiwan? And can we relate that to our experience here or our potential legislation?

Ms. CHILTON. I can't follow up in Taiwan, but I can with regard to Puerto Rico, if you are interested.

Representative ROUSSELOT. Fine.

Ms. CHILTON. Because that is one of the cities we visited and the task force found that initially the large corporations and multinationals, moved down there. They hired some of the local unskilled people for various smaller tasks, but the Puerto Rican people and the government decided that wasn't exactly what they wanted. So they required that, in addition to hiring people, they had to do a certain amount of their business in that area rather than export it all.

Since the inception of that program, they have found that just now, which is about 20 years later, the local residents who came in at an unskilled level and worked up to middle management are now going outside, starting their own businesses. But it took 20 years.

Representative DYMALLY. Mr. Vice Chairman, it seems to me appropriate for this subcommittee to visit England for the summer for the anniversary of the Free Enterprise Zones.

Representative ROUSSELOT. We will set that trip up.

Representative DYMALLY. Back to Mr. Kadlec. If you are saying that we will have in the extreme no training programs, but bring the jobs first, and then we go and recruit the people, and then we will eliminate the minimum wage for high school graduates just coming in the first job entry, what are some of the other incentives that you want to provide first for the employer, second for the employee? What if he is absent transportation? What components are you going to put in that package, or are you just going to leave it open out in the air for things to just happen by their sources?

Mr. KADLEC. Our recommendations are limited to the areas we know most about. We know a little bit about economics and we don't know a lot about public transportation systems. I guess when you look at the present disincentives in the inner city to make money because of what it does to your standard of living, because it lowers it, you have to conclude that it has never been more true than today, that it pays to be poor. Just think of it that way.

And what you have got to do is, to the extent you can, to start reducing those effective tax rates which on average are over 90 percent. Look at the payroll tax, the first dollar somebody earns in gross wages, in total cost to the corporation, 17 cents goes to payroll taxes. I mean, that is for starters. And if you add on loss in food stamps, AFDC, Medi-Cal, all the rest, it is an enormously heavy burden. So what we are saying is, anything you can do to reduce those effective tax rates is a start. It is not the end solution. It is just the beginning.

Some of the other comments I think I would like to address are, there is this notion there is a trade-off if a company locates in the inner city, it is moved from here to there. Therefore, there is no net gain. I think it is the entire country that has been impoverished by what has happened in the inner city. Los Angeles is not better off because of Watts. It is worse off. If Watts is thriving, Los Angeles County will be better off. I don't see any way you can escape that conclusion.

I am not concerned about where companies are coming from. I am concerned about increasing output totally. If Europe, for example in the extreme, collapses in an economic depression, it is hard to believe that the United States wouldn't be affected. Similarly, if the underdeveloped countries of the world suddenly prosper enormously, it is hard to believe, we, too, wouldn't be better off. It is not a zero sum game. It is just the reverse. Everyone is better off when someone is better off.

We can attract enterprises to the inner city, I can't tell you, I don't know, I am not smart enough to tell you how the benefits are going to follow. I simply believe the people in the inner city are smart enough to take advantage of the opportunities that would be created. I think you are going to see small businesses form again. If you tell a local businessman who wants to start a business that he has to have a job-training program to qualify, you just stop that business, stop it dead.

Representative DIXON. Let me add to that. I am not sure really where we are as it relates to job training. I am not coming from any particular point as it relates to job training. I think, Charles, what you are saying, the job training will follow as a natural consequence of development of the urban area?

Mr. KADLEC. I think that is the history of America.

Representative DIXON. I don't want to argue that at this point. Is the main thrust of establishing the urban Enterprise Zone to encourage existing strong businesses to move into these zones and a spinoff would be eventually in 20 years, as you have indicated, will be to have surviving small businesses, or is the main thrust to mix that and skew the legislation from its inception to develop small business? I am not sure what we are saying here.

Mr. KENDRICKS. Well, we are certainly saying that there has to be a balance. Otherwise what you are going to have, as Shirley so appropriately characterized it, is large businesses coming in without the development of the small businesses in the area. Twenty years is far too long to recapture the resources and skills in the inner city. That is the way I view it. And I think if you skew that legislation in such a manner that it takes into consideration the development of small businesses, as Peter says, we don't know or he can't really give you a statement on how well the British zones are doing, because for one thing they did not and have not developed the small businesses in the area. And that, I think, is the key to the growth and maturity and development of those zones.

Mr. KADLEC. Can I respond, too? I agree completely. And small business is an important part. The legislation in Puerto Rico, as it turns out, was skewed heavily toward mainland corporations. Mr. Laffer and his associate, Prof. Victor Canto, both of the University of Southern California, did a study of Puerto Rico for Governor Romero Barcelo. And although Puerto Rico gave tax benefits to large corporations, tax rates on Puerto Ricans were left at some of the highest levels in the world. So it is not surprising that the human capital residing in Puerto Rico didn't benefit as much as physical capital moved from the mainland. Now Puerto Rico is reducing tax rates across the board. And now you see the formation of small business. I would not favor capital or labor in the Enterprise Zone. I would try to benefit both. They are complements. They are not in conflict. They are complements. When capital does well, labor does well, too.

Representative DYMALLY. How about suspension of labor taxes for employees?

Mr. KADLEC. They are not paying them now anyway.

Ms. CHILTON. That was one of the discussions that was made with regard to training someone as an employee. How do you prevent that now-trained person from moving from your employment over to someone else in competition with you? An idea was offered to give employees a substantial tax break in order to stay there. So long as they remain, they get a 10 percent or whatever tax break.

But I would like to address, if I might, the minimum wage comment. You can tell most of what I have to say is from the data that we had gathered in our research. One of the things was that everyone—I shouldn't say everyone, because much of the time this was not brought up as a critical issue—but when it was, it was generally believed that elimination of the minimum wage would very definitely help the inner city teenagers. The other thing that was mentioned, much to my surprise, was, "get rid of Davis-Bacon," because it creates another side of the problem with regard to wage rate.

Representative ROUSSELOT. Exempt the zones from implementation of Davis-Bacon?

Ms. CHILTON. Yes.

Representative DIXON. And also exempt it from minimum wage?

Ms. CHILTON. Yes.

Mr. HAZLETT. Repeal of the minimum wage would help the area.

Ms. CHILTON. Yes.

Representative ROUSSELOT. So you would exempt people in that zone from Davis-Bacon?

Ms. CHILTON. This was what the recommendation was.

Ms. HAZLETT. Let me jump in, if I could. I think this question about job training really puts the issue in very sharp focus. And it brings us really to the precipice here. We are dealing with what in essence is a very revolutionary concept in terms of how we think about solving poverty.

Representative **Rousselot**. Well, we have got to do something.

Mr. **Hazlett**. We do have to do something. And what Enterprise Zones are more than anything else, hopefully, is an effort to free ourselves from the highly limited imagination of planners of people who sit down, see a problem and say "How can we use public funds to alleviate this problem?"

Enterprise Zones are an effort to allow spontaneous forces to evolve within communities themselves to utilize the assets and imagination and talents of these people who are most directly affected, rather than bringing in bureaucrats from Washington and sitting and trying to figure out what is going on and should be going on.

Job training is an interesting way to start looking at this. Obviously the best job training is a job. Nobody can disagree with that. Certainly your training to go to Congress was training in the California State Assembly, and everybody in this room can recount similar experiences, as Senator Hayakawa has.

Representative **Rousselot**. He was a taxi driver in Montreal. [Laughter.]

Ms. **Hazlett**. So all of us can recount how we got to where we are. And that is because of experience on the job. The key point is. What are you finished with when you finish with job training? If you are finished with job training on the job, you have a whole group of assets there that simply are not possible to derive in some sort of government job-training program. You have worked with people. You have established a track record for yourself. You have in every sense what economists call human capital. You even have references from people who employed you and customers that you worked for to testify to this.

Where people go in the system after they are done with this job training, then, is going to be very directly related to the value of the training, and Government programs just don't seem to be able to capture these sorts of very personal circumstances that are involved in any individual's successful job-training program. So in any sort of job training what we are looking at is a stark dichotomy. Is this going to be training that is in the imagination of some Govenment planner to communicate down in some sort of trickle-down method to the people who are afflicted by poverty, or is this a job-training program that is going to be really valuable to both the individual worker and the consumers that are buying the services of this individual worker?

Now to giving tax breaks for job training. The situation in Puerto Rico, as has been pointed out here, shows that if you give tax breaks only to large corporations, the large corporations are going to run the child day-care centers and run the restaurants and run the hospitals in that area and run the taxi services and messenger services and gas stations, because they are getting the tax break, and the local guys aren't. So obviously substitution effects are pretty obvious to see there.

The point is, if you make your Enterprise Zone in a very impoverished area and allow both big and little capital to come in and really produce something of value, they are not going to be not only producing in that one shot there. They might be bringing in highly trained technicians from Canoga Park. But the point is, there are going to be locally provided services that are very necessary. If you put stipulations on those firms that they must employ people in that neighborhood at all levels of the business, because you don't want them bringing in people from Canoga Park who have these high skills and could work in all parts of the city, but you want to employ local people, I think you are going to be really putting the cart before the horse.

You have to start where the people are. And those job-training programs will come about spontaneously as result of people responding to the demands that are now going to be very, very vital in that community. If you revitalize through big business and highly trained workers in the neighborhood, you are really going to be giving these local people an opportunity to lift themselves.

Representative ROUSSELOT. I think we will break for about 5 minutes, if we could, and then we will come back. I would like to pursue some more thoughts which have been raised in regard to training. How much of it should be imposed from Federal legislation?

Mr. SCHEELE. Can I make a statement of about 1 minute?

Representative ROUSSELOT. Sure.

Mr. SCHEELE. I think we are dealing—The reason it is so difficult to deal with this particular point about training is that we are really training the wrong person. The person who needs training here is the employer, and not the employee. The employer is the person who needs the new kind of way of running the organization. This is what they found in Tavistock's work with the labor boards in England, was the way in which the work was itself conducted.

What we have is a schooled society. They think like school. School makes people think that jobs are cut with cookie cutters and that you go and fill a job.

Mr. KENDRICKS. Right.

Mr. SCHEELE. And this mentality is pervasive. So we are really talking about changing people's habits of mind, their way of thinking of things.

I think it would be much more important to provide training to potential employers in the area about how to get work out of people that is to provide training to employees.

Representative ROUSSELOT. That is an interesting thought.

Representative DIXON. Could we just follow up on that?

Representative ROUSSELOT. Sure.

Representative DIXON. Mr. Kendricks your report deals with team concept. Could you explain that in more detail, because it sounds like where I am coming from, but not from where a lot of the conversation here comes from.

You describe how the community is involved and talking about what I would say is upward mobility in the job performance curve.

Mr. SCHEELE. I think it is teaching people private enterprise. They don't know it anymore.

Mr. KENDRICKS. That is what we are talking about.

Mr. SCHEELE. School is a grant bureaucracy.

Representative ROUSSELOT. Pardon me?

Mr. SCHEELE. School is a giant bureaucracy. For the most part, it is, just replicating itself.

Representative DIXON. But there has to be some blueprint or plan, even if it just involves the private sector in what we would generally call job training.

Mr. KENDRICKS. We are not disagreeing with you.

Representative DIXON. I know you aren't. But as I hear—is it Mr. Hazlett?

Mr. HAZLETT. "Hazlett."

Representative DIXON. You just said that isn't necessary.

Mr. HAZLETT. No. I disagree with that.

Representative DIXON. That is what I am trying to find out here. Sometimes it sounds like we are singing in harmony. But when you listen to individual parts, they aren't coming together.

Mr. HAZLETT. Let me give you an example of New York City. Up until a few decades ago, New York City was the headquarters of corporate America. And millions of impoverished immigrants went there. The most spectacular ethnic example would have to be the Jewish immigrants that arrived in the late 1800's and early 1900's. They had $8 in their pocket. They settled on the lower side of New York City. And it was close to where they got in off the boat. And it was as far as they could walk without running out of money. These people did not immediately run into the presidential suite of these corporations. They did what amounted to menial tasks at the outset and went into some modest enterprises.

I don't have to give a history of the Jewish population in this country in terms of its economic success, not only that it succeeded economically, but in terms of other statistical indices. Of course, in World War I, there was big question as to whether or not Jews were just not smart enough to make it in America, because in the test run during World War I for induction to the Army, Jews did poorly in terms of IQ tests.

I think Nobel Prizes and other sorts of things would dispel any notion of that problem today.

The point is, there was no job training program for these Jewish immigrants. There was no tax break. As a matter of fact, for these immigrants there was no sort of special incentive for small businesses to start up there.

Representative ROUSSELOT. I have to admit the taxes were lower then.

Mr. HAZLETT. Well, this has been destroyed. As taxes have risen in New York City, we no longer see the spontaneous job-training programs in effect. So that is obviously another point in or study here. But what I am trying to find out, these people did not go to work for the Mobil Oil Corp., when they stepped off the boat. They went to work in what were service industries, more or less trying to find entrepreneurial ways to make a buck. These immigrants themselves figured out for themselves ways to meet consumer demand in that community. There was no workshop that educated them as to virtues of economic enterprise or thrift or on-the-job training. This was simply a natural human function. And these people performed it brilliantly. Today there is little problem about getting the Jewish ghetto out of poverty. So I think we should look to this.

Mr. **Kadlec**. In fact, I ask you this question. If you have a job-training component of the law to comply with——

Representative **Dixon**. To qualify?

Mr. **Kadlec** [continuing]. To qualify. My best guess is, you need a personnel department to handle all the forms. I daresay there are not many businesses in the inner cities that can handle that sort of personnel function.

Representative **Dixon**. Let's talk about the large substantial corporations.

Mr. **Kadlec**. What you are going to do is discriminate against small business in favor or large business.

Ms. **Chilton**. Yes. That is an important point, too, because the study as MIT has been referred to with regard to the basic job-creating element in this country for small businesses. Time and time again we heard that a small business of 20 employees, having to hire certain people and train them. But what happens if I have 20 people, and I have a 40-percent requirement, to hire 8 people are unskilled. I am going to use the other 12 to train them. The field says no way. So it is extremely important to have a great deal of flexibility and not overlay another level of regulation, or it will be disaster.

Mr. **Kendricks**. I think that in responding to that, you all know that what we suggest is technical assistants to assist the strategic planning of small businesses. Now, Mr. Hazlett's point about the immigration process, I am certain that all of these, and as I read history, they didn't come in absolutely destitute.

Mr. **Hazlett**. They did. The Jews did.

Mr. **Kendricks**. Some did.

Representative **Rousselot**. The majority of them did.

Mr. **Kendricks**. But there were people here who assisted, and even today there is assistance given in terms of support for starting new businesses within the Jewish community.

Now, in the inner city that support is not available in terms of technical assistance. And what we are suggesting is that there should be technical assistance to assist small businesses start up. I am not saying we call it "a job-training program." That is not what I have suggested. I have just suggested technical assistance.

Mr. **Kadlec**. Should it be compulsory?

Mr. **Kendricks**. You don't have to.

Mr. **Kadlec**. As long as technical assistance is there and they can avail themselves of it there, fine, as long as it is not compulsory. In fact, the best case is that it will originate with companies like your own, in the private sector, who see the opportunity.

Mr. **Kendricks**. We are not saying—If you are merely going to say to these folks "Well, you have the opportunity. Go down to Bank of America and request a loan to start your business," I don't think they can develop or they may be able to. Many will be able to develop a business plan and proceed. I am saying that others who want to start a small business will need technical assistance. And that technical assistance, whether you view it as training or in fact it becomes training by doing.

Mr. **Scheele**. It used to be your uncle.

Mr. **Kadlec**. If it is there on demand as opposed to being compulsory, great. I agree. I liked your example a lot about your giving the guys the responsibility and they said——

Mr. **Kendricks**. Right.

Mr. **Kadlec** [continuing]. "Hey. But where do I go to buy the produce?"

It helps to have somebody there to answer the question. That is very constructive.

Representative **Rousselot**. I am going to be dictatorial here and break for 5 minutes. Please be back in 5 minutes, if we can.

[A short recess was taken.]

Representative **Rousselot**. I guess we will try to get started again here.

Congressman Dixon had to go to his office briefly, which is just adjoining the facility here. So I am sure he got stuck on the phone and will be back in just a minute.

I would like to dwell, if we can briefly, on what your comments are as it relates to regulatory changes.

Mr. Kendricks, you mentioned an interesting thing to me about your experience running CETA, at least as it related to participation by the city, was they had a restriction on making money. Now, do you want to comment on that and why you finally had to shut down your store?

Mr. **Kendricks**. Well, in terms of speaking to the regulatory issue, one of the things that I believe, that if there is public support for Enterprise Zones, that there should be no restriction on making a profit. When we were able to get the co-op up and operational, a critical thing happened. Those guys who were in charge of monitoring the program came out and found that the program was in fact turning a profit.

Representative **Rousselot**. These were people from the city?

Mr. **Kendricks**. That is correct. There were city monitors who monitored each and every CETA program. One of the things that you could not do, according to the guidelines, was to make a profit utilizing Federal dollars.

Well, critically enough, we were making a profit with the co-op as well as our legal services or our law office which we started. And when they discovered that we were making a profit and that we were using that profit to pay the employees to increase their salaries, they immediately closed down the store. So we had to sell off the cold boxes, the vegetables, the cash registers. I mean, they had bought the equipment.

Don't misunderstand. There was no money to buy the equipment. Their sales had generated enough money to buy cold boxes, tables, cash registers to open up a storefront. I mean, they had opened up a store in the shopping center. That was closed, shut down completely. And they said "You cannot make a profit. And if you are making a profit, then you are not in compliance with the guidelines and the law."

Representative **Rousselot**. Were those guidelines CETA guidelines?

Mr. **Kendricks**. They were CETA guidelines, which is why I think the response that Sam made in terms of making sure that the legislation is tight in terms of what can be done with administrative agencies in terms of how the programs are running are critical, or ran are critical. If the people cannot make a profit, which is what Enterprise is about—I could have spun that store off without any difficulty. Because it was the first co-op in the city of Los Angeles. But we didn't have the opportunity to do so because those guys who were down there running it now say "What's this all about? There is no way for us—what do you want us to do now?"

So I brought them back in the office and had to talk to them about things like "Guys, you have got to learn to write a résumé. We need to talk about your skills. I need to send you out on interviews now" because that was what they wanted me to do.

They did not allow me the opportunity to let these guys leave the program, leave CETA and run the store. Then we start another store. If I could have moved them into the store, that meant I could have had 15 additional slots that I could have started store 2 in, that I could have used in store 1. The guys in store 1 could have assisted the guys in store 2 to get going. But that never happened. We never got to that point.

Representative ROUSSELOT. What you are saying, then, is that anytime we design a Federal program, we have to make sure our plan is so complete that bureaucrats cannot promulgate rules, guidelines, and regulations which would be a deterrent to the ability of the program to succeed.

Mr. KENDRICKS. That is correct.

Representative ROUSSELOT. You did mention that this group was primarily people who had been in some way involved in crime. How did you prevent this group from further engaging in dishonest enterprise?

Mr. KENDRICKS. It is very simple. I said to those guys, "You are walking around seeking a job." And the thing that ex-offenders say is, Nobody, no one will give me a chance because I am an ex-offender.

"I have given you an opportunity in my business. One, I don't want you to make me look bad. And if you do, I am going to fire you and I am going to see that people know that you are a thief, that you steal from yourself. Nobody steals from themselves. You don't need to steal from yourself. You are here to make money for yourself. You are not making money for me. You are making it for yourself."

And the interesting thing was, firing them was the deterrent, or they realized they were making money for themselves. There was never a problem with theft. I mean, they didn't even bother to steal apples. They could have eaten an apple. But they put a nickel in the cash register themselves when they ate an apple, or when they took stuff home they paid for it.

It got to the point where I didn't have to watch them run a business for themselves. I did not have to go to the store. That was another thing the city said. "How can you turn these guys—how can you free these guys up? You guys don't go down there. You are way across over here and they are down there running the store. How come you don't go down?"

The thing I did was put a time-in clock, which the city didn't want me to have. I said "You punch in in the mornings and in the evenings when your shift is finished. If you don't, you don't get paid. That is how the business runs. If you are not here at 8:30 a.m. to punch in, you get docked. You get docked both in terms of your bonus from what you make from the sales, and you get docked in terms of your salary."

Now, it was interesting. They were there. People were there. They punched in before 8:30 a.m. They were always on me that I didn't get there in time to let them in sometimes to punch in. "You can't dock us because we were here."

And they would even write lists themselves of the time they came in. So I think it is critical that we view enterprise in terms of what it really means, that is, to allow people to make money and to give them the technical assistance that they need to do that.

Representative ROUSSELOT. And that we should not allow regulations to be written by the bureaucracy which do not take into account this factor. We usually give agencies authority to write rules and regulations which, you have just indicated, can in fact be a deterrent to the ability of the enterprise to flourish.

Mr. KENDRICKS. That is correct, sir. More importantly, we pay welfare payments, but that does not generate any income both for the Feds, Federal Government, or for the people. I think most of those people we had were either ex-offenders or welfare recipients. And the clerk-typists were also part of a scheme to make money. What they were told was that I would sell—I said:

> I will go out and get jobs for you to type. Those of you who can type well enough to sell your product to people who need typing services, that is where you make your money. The CETA is merely a foundation. The money is made in terms of what you deliver.

It is funny. We turned out a lot of clerk-typists because they were making money. That seems to be the bottom line. But as soon as you are using Federal dollars to make a profit, you are in big trouble. So I think that has to be clearly pointed out.

Mr. KADLEC. I think another area of potential regulation which was mentioned, it is a nice word, I heard "gentrification" I guess was the word used. I think what that means, if the inner city prospers, that is bad, because it will look nice. But I kind of feel that is the purpose. This notion that somehow you have to make sure the property values don't go up, because then the people who live there now may be displaced, and therefore you have to sort of freeze the inner city so nothing changes, except that you get jobs, I think that is an unrealistic approach. I think it is true that some people will be displaced and there may be some special provisions to help those people. But you don't want to make sure that the inner city doesn't get gentrified. In fact, you would like to assure that it does. You want to make sure the inner city prospers. So you don't want to put impediments in. First of all, it benefits people if property values rise. If you can improve property values and a person gets the benefit of a rise in the value of their property, it is good. Second, the guy who buys at a higher value makes sure he gets more economic benefit out of the use of that property. Otherwise he wouldn't have paid that much money for it.

That is another dynamic part of the zone. Allowing property values to rise, is to allow houses to get torn down if it makes sense to put up something else there. I think to the extent that you try to anticipate how that should happen, if you try to imagine what the Enterprise Zone is supposed to look like 5 years from now, you are probably going to get in the way of the best solution.

If I can use Ms. Chilton's imagery again, it is like worrying about pioneers heading West, worrying about them clearing the forest, because they may plant corn. Such a sequence would not be good for the lumber industry. That is true, but it was great for those people. If the benefits of progress flow to the people of the inner city overall, then I think you have got to let progress take place. Enterprise is a dynamic concept. It will cause change, it will require people to move. But that is normally called progress.

And I think there may be some special programs for some people who are truly disadvantaged, truly put out on the street. There is no reason for anybody to be worse off as a result of this program. But you don't want to keep people from being better off.

Representative ROUSSELOT. One thing I know. Every time we, on the Ways and Means Committee, talk about changing tax laws, especially to provide advantage, we always hear from the Treasury Department that there will be revenues lost. But the next complaint we hear is that we are giving undue advantage to somebody over somebody else. Now, one of the things recommended in our Enterprise Zone is that we eliminate the capital gains tax entirely for people in the zones. You then immediately get the claim from others that say "Well, that is a disadvantage to others who have to pay the normal capital gains tax," although we have just reduced the capital gains tax, as you know, in our recent tax law from 28 to 20 percent. How do we answer that complaint? How do we answer that charge?

Mr. KADLEC. I think it is a correct observation. You do give unfair advantage to the inner city. But look at the problem. I mean, the inner city is there. And it requires giving unfair advantage for somebody in the inner city to get wealthier. That is a lot better than paying somebody to remain poor.

Ms. CHILTON. I can give you another answer. If you want the advantage, move there.

Mr. KENDRICKS. Yes.

Mr. KADLEC. Yes.

Ms. CHILTON. This of course was one of the things that came up in our research, in trying to stimulate growth and advantages for the workers and the residents in the area, all kinds of things were suggested. For example, give 100 percent relief from capital gains tax on a roll-over basis if funds are reinvested within the area rather than providing the opportunity to go there and sell something and come out. Don't go in there just to take something out. You have got to keep putting it back in if you want this advantage. So the targeting isn't so bad.

I think one of the things, a person who lived right across the street from an Enterprise Zone, they have all these benefits and I don't have any. Then move across the street. But move across the street so that you increase the size of your business and put your money into that. Build the building and hire some people.

But I think that if I may make my own personal observation now, this has nothing to do with the research, Enterprise Zones, as if anything, any country, any city, any county, any State, any anything is only going to be as good as its leadership. And the leadership in a city that has an Enterprise Zone gets out there and talks to the businesses in the community and puts everybody together and charges them up, stimulates them and does a little motivation, genuine motivation, putting their effort, their dollars and cents, because their effort is dollars and cents and to this thing. It will work.

Because there are also all kinds of things people can do together. They can be just as creative in business and government and economic development as you can in the arts. And it is very stimulating and dynamic. So there isn't really anything we can't do if we want to do it bad enough.

Representative ROUSSELOT. Yes?

Mr. SCHEELE. I would like to say I would link a lot of the benefits to both having a thematic focus and toward exports. I think one of the things that is really——

Representative ROUSSELOT. You mean exports from the zone?

Mr. SCHEELE. Exports from the country. To the extent that we only change the production mix in the country, if we look at health care services over the last few years, and you people have certainly had enough talk about them, they have increased faster than defense spending. And, they contribute nothing to our productivity. In fact, there is every evidence to say our health-care system is worse than it was 10 years ago or 15 years ago.

All that it does is raise the capital cost, I mean the cost of doing business, essentially our national overhead. I think we have to have much more of the concept that has been referred to as "Japan Inc." We need America to start figuring out where to sell a product? What is appropriate technology to sell a product? And how to focus these areas on serving that need so they increase the balance of payments.

We do strategic planning for one of the large companies, John Deere, which is one of the large farm implement makers in the world. In fact, it is the only one that is currently making a profit. And they are looking at themselves saying "Are we in the wrong business?"

It may not be a good business to be in—the farm implement business. There may not even be any profits. We have to unleash America's farmers. They want to produce a lot more. We haven't found a way to market it abroad. We haven't found a way to get them——

Representative ROUSSELOT. Well, we are selling our navel oranges to Japan.

Mr. SCHEELE. We are selling a lot of different things. We are still also paying a lot of farmers not to produce.

Representative ROUSSELOT. That is true.

Mr. SCHEELE. We don't want to have——

Representative ROUSSELOT. We finished a farm bill that does exactly that.

Mr. SCHEELE. What we don't want to happen is to have Enterprise Zones created in such a way that 5 years from now if they are successful we are going to start paying those people not to produce. I mean, we want them to be in businesses where they can contribute to the net gain on overseas sales.

Mr. **Kadlec**. I couldn't disagree more. A small business——

Representative **Rousselot**. With what part of it?

Mr. **Kadlec**. With the part that output has to be exported outside the country. There is no way that a small businessman in the inner city——

Representative **Rousselot**. He didn't say it had to be.

Mr. **Scheele**. I would link a lot of it.

Mr. **Kadlec**. There is no way a small businesseman in the inner city can get a substantial portion of his output sold outside the country, far less outside the city. What you want is inner-city enterprise to take place. If a guy can make a profit in the inner city by selling goods and services in the inner city, let him have it.

Mr. **Scheele**. I think it is more trickle down.

Mr. **Kadlec**. There is nothing trickle down about a man running a storefront business. The grocery store, the co-op, there was no export in that co-op setup by Mr. Kendricks.

Mr. **Scheele**. But the 1 mile square of Taiwan was linked culturally to an overseas Chinese community that made it produce.

Mr. **Kadlec**. I think it was a mistake. The co-op is the best example. They produced for the community. That is great. Why preempt an opportunity?

Mr. **Scheele**. It is transitional.

Mr. **Kadlec**. Why preempt an opportunity just because it doesn't exist for the benefit of the foreign consumer?

Representative **Dixon**. Aren't you saying, Mr. Scheele, if the Enterprise Zone works there, inevitably it will increase in productivity and that we have to look for additional markets for that increase in productivity?

Mr. **Kendricks**. Got it.

Representative **Dixon**. Would you disagree with that?

Mr. **Kadlec**. I don't disagree with that. As you increase productivity, you increase output and consumption. The way people acquire goods and services is ultimately to produce them. As you increase the standard of living in the inner city, you are going to create demands for goods and services produced there in the aggregate. There is no reason to think about exports as being better than stuff produced for the guy next door.

Ms. **Chilton**. I think the argument is, we are arguing about an overproduction or oversupply. You don't really have an oversupply, you just have a wrong price.

Representative **Dixon**. Let me get back to a basic question. And perhaps my assumption is wrong. My assumption is that one of the desirable goals is to employ people in certain urban communities. Now, I guess either there is a development of small business that didn't exist before and I agree that small business makes a significant contribution to the new job market. But I fail to see how moving a large company from the valley into Watts in the total picture is going to produce more jobs.

Representative **Rousselot**. You are assuming Watts had been designated an Enterprise Zone?

Mr. **Kadlec**. There is not a zero sum game. You have increased total jobs by increasing the output of the inner city. You have not decreased the output of the valley. If you move opportunity into the inner city, there will be net increase in output. The valley may be a little worse off, but the inner city is going to be a whole lot better off. If you add two together, it is plus, not zero sum game.

Ms. **CHILTON**. You have a different environment in the valley. You don't have Watts. Somebody else will pick up that space in the valley. In a distressed area you have to have special incentives, as you well know, in order for people to take the risks.

Representative **DIXON**. And your thinking is that somebody else will take that space and expand that?

Ms. **CHILTON**. The cities, they are all thirsting for expandable real estate. You don't have the cost to do business in the valley that you have in the inner city. It is most costly infrastructure and prevention of crime and provide for security.

Mr. **HAZLETT**. To answer the Congressman's question head on, I would say there is a net gain. And I am not talking about the fact that the supply elasticity, as economists say, in the valley would be higher. In other words, you expect it to be a lot easier for a new business to start in the valley than Watts, all else being equal. I am talking about positive effects, moving the business, a firm, from Canoga Park to Watts. There are all sorts of positive externalities that would be generated by cleaning up the environment, by providing those jobs in that particular neighborhood.

In addition to that, you give the opportunity to all—you just create a market right there in that neighborhood with all those idle resources sitting around, waiting to be utilized. You create opportunity for people in that community to start producing. There are all sorts of positive effects, neighborhood effects, community effects, whatever you want to call them. Economists usually call them externalities that would be generated by moving that corporation from part of the city that doesn't have as many of the negative neighborhood problems to an area that does.

And you would increase the wealth of society even if there were no new company in Canoga Park started up. In fact, however, that wouldn't be the case.

Representative **DIXON**. Would you give some additional help to those people in that zone to start their own small business rather than those small businesses coming in from outside?

Mr. **HAZLETT**. Well, the people in the zone do have an advantage. They have help just by virtue of the fact you made them a zone. And so they have lower costs in starting up businesses there. They have better information about what the community is. I think you want to gear this program to not trying to figure out who you should give particular benefits to. You simply want to look at areas where you really have a problem, and more or less we don't have a solution under current programs, and say "Look, we are going to make it possible for these people now without the burden of regulations and taxes and building codes and zoning and minimum wage laws, Davis-Bacon, whatever. We are going to make it possible for them to utilize their own talents." I think you have already given them an advantage.

On top of that I think you are getting back to the idea that Government planners somehow can pick the best people in the system. If you start saying "local enterprises have to qualify in front of our administration," so forth, I think you are back in the old ballgame. I think what you really want to aim for here is to just by nature of the geographical area give these people an advantage. Now they are in a zone where they don't have the impediments that people do in the other system. That is the advantage.

Mr. **Hall**. Let me give you a classic case. Up in the Silicon Valley now they are just out of space. The estimates are they have zoned space for new factories that will produce three times as many people as they can house. And many of those jobs, as has been said, are not in the high-skill systems engineering area, but fairly low-skill assembly. If some low-skill assembly operations instead of expanding out of the valley, out of the Silicon Valley into the Sacramento area—where I hear there is resistance to further growth developing—if they were brought down here into Watts, there would be a net economic gain, because you would be transferring potential jobs for an area of great overheating with externalities in the form of high housing costs into an area of underemployed resources.

In that particular case I think the economic principles are clear, that there is an economic gain from transfer of activity. You still should be considering the case of creating new enterprise in the area, because I think that is even better for the reason that it is more likely to employ the particular skills of the difficult-to-employ people, as we were discussing before the break.

What I do think it is important to say lastly, to pick up a point earlier, is that if you get pure gentrification, that is, upgrading of values of property, there isn't necessarily much gain to the people in the area, especially if they don't own that property. There may be a subsidiary gain from people fixing up houses and providing jobs that way. But I would have said in economic terms it is the least productive in terms of just creating jobs for people.

Representative **Rousselot**. Senator, you had a comment?

Senator **Hayakawa**. I want to say first of all to Mr. Kendricks that his story about the co-op formed in the CETA program touched me very deeply. I was personally deeply involved in the 1940's and 1950's in the starting and encouraging of two co-ops in Negro districts in Chicago, one called the People's Co-op on 47th Street and one called the Co-op of Commonwealth Foundation in the outskirts of the south side of Chicago. Both of these enterprises failed. And both of them failed for the very basic reason that the employees never got the discipline that you gave your employees in the co-op.

But if the co-op, these two co-ops, in Chicago had succeeded to the degree that yours did—of course, there was no force complaining to break it up—they would have established more branch stores and a chain of co-ops all over Chicago by this time if they had been encouraged to continue it.

So the idea of your co-op having to sell its cash register and all its equipment and so on broke my heart to hear it.

Mr. **Kendricks**. Thank you.

Senator **Hayakawa**. I believe very profoundly for the economically disadvantaged the co-op is a very important economic instrument by which communities as a whole as well as individuals working in it can improve their own self-image and their own sense of their ability to help themselves economically.

I mentioned earlier the trade zones in Taiwan. The Enterprise Zones started in 1966. I would like to give you some details about that. They eliminated commodity taxes, all corporate income taxes for 8 years, all customs barriers, all exchange controls regulations, all redtape. And this was a 1-square-mile area which generated 7 percent of the entire country's foreign trade. It created 50,000 jobs in 3 years.

In Sri Lanka they set up an export processing zone with unprecedented tax incentives like 100-percent tax holiday for up to 10 years on all personal and corporate income, no limits on equity holding by any class of investor, free transfer of shares, no tax or exchange controls, and no tax on dividends, no import duties, no barriers, no capital controls, and so on. This is a libertarian dream. And economic growth rates in the following 2 years after zones were established, economic growth rates doubled, job creation was in the tens of thousands. And the country is considering creating two more zones of that kind.

Now, there is no doubt about the success and the potential success of any of these. It happens that the two examples I have just given of Taiwan and Sri Lanka dealt mostly with export goods. And, of course, they are greater exporters. They are more dependent on exports than, let's say, the United States. But I don't think that, as I believe Professor Hall has said, that these export zones need to concentrate on exports for their prosperity, because there is much that can be done within our own country.

The reason these zones became necessary is that curious development going on in Western Europe, no less than in the United States, a kind of demographic change occurring in cities where there is a broad movement of middle-class and upper middle-class people from the central city out to the suburbs. And skilled middle- and upper income people leave behind lower income people, minorities, problem families all within the inner cities. And neighborhoods are in an entire decay as in many parts of San Francisco, Brooklyn, and elsewhere. We are all familiar with this.

Now, obviously traditional policies have created this situation. And therefore traditional policies will only perpetuate it and make these conditions worse. Communities such as areas of Brooklyn that used to be lovely, lovely places to live in, are a shambles now. And this is true of so many parts of San Francisco, of Pittsburgh, of Detroit, of St. Louis, and so on.

Now, one thing is very important, is that the only job-creating segment of the population is small businesses employing less than 20 people. These provide about two-thirds of all the new jobs created in this country. It is not General Motors that is doing it. It is not Chrysler that is doing it, God knows. It is not General Electric. It is these small companies with less employees. They are the ones that are constantly adding to the total number of people at work.

Now, small businesses have a very high death rate. But they have a high death rate whether they are in the inner city or in the suburb or anywhere else. The death rate is uniform. The real difference is that in declining areas, fewer small businesses get started. And therefore one source of continuing growth is cut off from the inner city.

There has been some talk about the difficulties of starting a small business because of lack of capitalization. I think of my own family and many families that I have personally known, some of them Japanese, some of them Scottish, Jewish, Irish, Chinese, where a small business is almost always started by an individual's personal savings plus his borrowings from his immediate relatives. You hit up your brother-in-law of father-in-law or you hit up somebody in the family. You say "Don't you want to put up a couple thousand dollars in my new service station?" or whatever.

Not all cultural groups have the strong sense of the creation of mutual aid, financial cooperatives that the Chinese have. But the Chinese have a wonderful system of relatives. Everybody by the name of Wong is a relative of yours. Everybody who has got the name of Lee is a relative of yours if you are a Lee. And there are lots of Wongs and lots of Lees. And if you are a promising young man, the family association looks over your record, looks over your ancestry and your father's record and your grandfather's record. And this young man wants to start a restaurant, and he can put up $10,000 of his own savings from his job as a waiter. Then the Lee family cooperative may well advance him another $20,000 to get him started.

I think there are other ethnic groups that have this kind of system. But these systems are self-generated. They come out of the cultural pattern of the ethnic group concerned. They require no Government help. And as in the case of the Jewish immigrants that relied a lot upon this kind of financing, so many of them became wealthy. They became well educated. They got into the professions and so on in a generation or two through just this kind of enterprise.

Now, every kind of limitation and barrier we place upon experimentation cuts off the creativity of the common people. And the creativity of Mexicans with their culture, the Jews with their culture, the Chinese with their culture, they all take different forms. And there is no one in Washington smart enough to figure out a set of regulations that will encourage all of them instead of discouraging them. And what may encourage one immigrant group may discourage another. There is no way of telling.

And so the best thing for Washington to do is to stay out of the business of trying to regulate these spontaneous developments if ingenuity and creativity in people.

You have to improve the birth rate of new business. As I said, new businesses tend to start in already prosperous areas. What we need is a climate in which new businesses start in depressed areas. And this is what the whole Enterprise Zone is about. If you create new businesses in small areas or in depressed areas, they are the ones that create the new jobs. They are the ones that create new opportunities. And I mentioned only half jokingly we approach the libertarian ideal. But essentially simplicity is the essence of the Enterprise Zone idea. Just keep one's hands off of it to the maximum degree.

Among the things that have been commented on is the types of businesses that are likely to start in these zones. Well, primarily they would be service businesses according to many authorities. But would they serve simply that community? Many of them will serve larger businesses and more successful businesses from outside the Enterprise Zone. And so money will flow in from the non-Enterprise Zones into the Enterprise Zones because of the success of these small businesses, these service businesses. And this kind of service will therefore continually pour money into the Enterprise Zone.

If an Enterprise Zone has any success in creating jobs, increasing community pride, and that community pride can come from the influx, let's say, of high technology computer companies moving in a branch, assembly plants in to Watts, or can come from the formation of new businesses from within the local population, either way insofar as there is a growth of economic activity, there will be growth of community pride, and therefore a growth of community spirit and a decrease in crime, which is simply a manifestation of social disorganization.

As people take more and more pride in their community, there will be a decrease in crime. There will be a decrease in the number of young people at loose ends, because there are no opportunities for them whatsoever. And that itself is a source of crime.

So you can see the development of self-policing, or community organizations, of block patrols and so on developing because the community begins to believe in itself.

Now, a current suggested legislation reduces the corporate income tax rate by 15 percent. For Enterprise Zones or for others besides, this should be a 50-percent across-the-board reduction. Reduce the individual income tax on income from noncorporate business partnerships by 50 percent; reduce corporate capital gains rate to zero percent and increase exclusion for noncorporate taxpayers to 1 percent. And this could encourage corporations to keep their money invested right in the zone.

And that matter of investing in the zone once your business begins to prosper has been brought up by more than one of the participants here. And I think that is a very, very important idea.

Now, I will close my remarks with debatable conclusions. The zone shouldn't be administered by a city.

Representative **ROUSSELOT**. Do you all agree with that?

Mr. **KENDRICKS**. Yes.

Senator **HAYAKAWA**. Federal legislation should state that cities are not allowed to be the prime instrument in organizing a zone.

Representative **ROUSSELOT**. How do you get changes in local zoning laws if you don't have the city involved? Restrictive zoning laws must be overcome. That will obviously require the local city or county government to be involved.

Senator **HAYAKAWA**. That is all right.

Representative **ROUSSELOT**. That is one of the elements that we have found not only in what has been said here today, but in other hearings we have had that local zoning laws many times are a deterrent.

Mr. **SCHEELE**. It is a Federal priority. You have emminent domain. That is what you say. I am serious—defense law. It already has enabling legislation. All that has to be said is Enterprise Zones are a national priority and all local zoning rules are suspended.

Senator HAYAKAWA. See if you can get President Reagan to give one of his elegant television speeches on the subject so that there is kind of a momentum behind the whole idea. I think it would help a lot, because the Enterprise Zone is a new idea to many people.

Representative ROUSSELOT. Yes, it is.

Senator HAYAKAWA. It is an unfamiliar idea. And having the President with his rhetorical and great skills at persuasion available to us would go a long way toward overcoming resistances from the cities.

Ms. CHILTON. Incidentally, Senator Hayakawa, the five groups that we talked to in our tour, said if there was going to be enforcement of anything, each one of them thought they were the ones to do it.

Representative ROUSSELOT. When you say "five" these were city governments?

Ms. CHILTON. Well, we talked to city, State, big business, medium, small business, and minority groups. They all thought they should be the community group individually run Enterprise Zones.

Senator HAYAKAWA. Well, I am glad there are people who have some optimism about this.

One comparison. Excuse me.

Mr. KADLEC. The issue raised is, once you have established the rules and once a local government pops into the system, as opposed to having the system imposed on them, what administration is required?

Representative ROUSSELOT. As an example, let's take earthquake provisions that we have in this State. Who makes the final determination, the Federal Government?

Mr. KADLEC. That has to be a negotiated local issue. But once that is accomplished, once agreement is reached, OK, boom, you have got it, here is your Enterprise Zone.

Representative ROUSSELOT. That is part of the negotiation to allow it to become a zone?

Mr. HALL. Yes.

Mr. KADLEC. But after that, I don't see a continuing need for administration now that zoning laws are set.

Senator HAYAKAWA. It is interesting to compare this idea of the Enterprise Zone with the Model Cities program. The Model Cities program goes exactly the opposite way. It is just full of regulations. It is full of interference with local autonomy. It was too much public interference and too little room for private enterprise. And I am very, very glad that we are going to the opposite direction.

I see that there is going to be trouble with organized labor on this. Organized labor would be against it, because they see it as an attack upon the minimum wage.

Representative ROUSSELOT. Or Davis-Bacon.

Senator HAYAKAWA. And on Davis-Bacon, yes. And you may very well find some big businesses against it, because they fear competition from businesses within the zones. But I don't think that they have much to fear, because big businesses will find their business is getting bigger if these zones become prosperous.

Another important thing is that there are businesses, for example, in the knitwear industry, the shoe industry, and many such industries in textiles, clothing, and so on, which are threatened by competition from outside the country, especially South Korea and Taiwan.

An Enterprise Zone can very well go into this kind of manufacture, and being freed of the kinds of regulations, the kinds of taxation that the ordinary manufacturer in, let's say, St. Louis is confronted with in a shoe factory, we might be able to restore some of our industries that are based upon, shall I say, semiskilled or at least skilled, but not technologically sophisticated. Industries would like to bring them back into the picture.

Well, whatever the shortcomings, whatever the obstacles we have to solve, it seems to me I want to express my gratitude to all of you for your contribution to this discussion. I think we really ought to steam ahead, Mr. Vice Chairman, and work toward getting some national legislation to authorize, encourage the formation of these Enterprise Zones. There are so many places all through the United States that need them very, very much.

Some of them may be rural, as in Appalachia. Some of them may be extremely urban, as in Brooklyn or San Francisco or Los Angeles. But there must be some solutions everywhere and no more reliance on the Federal Government to bail us all out.

Representative ROUSSELOT. Thank you, Senator. Anybody want to comment on that? And then I know Congressman Dymally has a couple questions he wants to put to the panel.

Go ahead.

Mr. HALL. Let me pick up one point straightaway. It seems to me that the Senator has really pinpointed one critical area, and that is, that past generations of low-income arrivals into the United States did effectively bootstrap their way into affluence within a couple of generations by small enterprise. And the question must be how do we do that for remaining low income and especially welfare people.

Now, I think that we have a problem, because the evidence that I have seen from careful work by sociologists and others suggests that in many ghetto communities you do not have the business structures. You do not have that traditional family enterprise that characterized the Jewish immigrants 80 years ago or, say, the Chinese immigrants into California today.

Therefore, you should target in those communities the people who might become new entrepreneurs. And you should really target your aid onto them.

One way that might be possible to do this would be merely to say to individuals, perhaps on a choice basis, "Give up welfare payments and in turn receive tax credits for investment." They have to be tied to their ability to invest through some investing institutions in a new small enterprise. That would be done for a period of years. And then that aid would be cut off, because I do accept the point——

Representative ROUSSELOT. This would be on a voluntary basis?

Mr. HALL. It might be on a voluntary basis, yes, in the first instance, and the incentives would be, so to speak greater than the loss of the welfare. But you would have to have pretty firm watertight guarantees to think that money was going into investments.

So it would have to be administered through perhaps some traditional funding mechanism such as local banks. I don't know.

Mr. KADLEC. What sort of investments? Capital?

Mr. HALL. Yes. It could be purchase of physical equipment, capital investments.

Mr. KADLEC. Educational?

Mr. HALL. YES.

Representative ROUSSELOT. Do you know of any place it is done?

Mr. HALL. I can't think of any examples at this moment.

Representative ROUSSELOT. Mr. Dymally wants to get into this.

Representative DYMALLY. Mr. Chairman, Senator Hayakawa can take some small consolation that while the co-ops were failing some 3,000 miles away, I was reading his columns in a Chicago paper. The Senator was a writer for a very prominent weekly, and I used to be a gofer for a small newspaper in Trinidad. I had to take care of all the mail. I used to read his columns.

Senator HAYAKAWA. Did we have a circulation in Trinidad, too?

Representative DYMALLY. One copy.

Representative ROUSSELOT. One paper?

Mr. SCHEELE. Hardly a circulation.

Representative DYMALLY. I used to work for a trade union weekly, and I read your column regularly.

It seems to me, and this is really addressed to the three men of the Council here, what needs to be done in legislation, more of the details ought to be written rather than saying "The Department shall promulgate regulations to enforce this act."

I don't think we trust departments as much on the State level as you do on the Federal level. I think that over the years what has caused a lot of the problem is that we have seen a number of these innovative pieces of legislation. Ms. Chilton, IBM has had great success in Brooklyn. I understand it is one of the most profitable units. But I also understand that they said they would not go back into Brooklyn under the conditions that they had to operate on. And I wonder in the course of your study do you know why the reflection and what were the problems they had in Brooklyn?

Ms. CHILTON. I am sorry, I don't have any details specifically regarding IBM. But we did talk with other larger companies which were discussing perhaps moving into South Bronx or a similar area. They said that the biggest deterrent was the crime element. On the other hand, however, there are some smaller and medium-sized businesses who took exactly the opposite viewpoint.

These larger businesses stated that the reason they didn't want to go in there is that their existing employees, many of whom were skilled, didn't want to work in that area because of the crime, whereas the smaller businesses made it a point to hire the people in the community, because they didn't have to pay them the higher wages, and they were willing to train them.

But the main reason given was that the existing employees of these companies didn't want to work in the crime area of the urban city.

Representative DYMALLY. Thank you.

Representative ROUSSELOT. Thank you for commenting.

Let me interrupt just a moment. Congresswoman Flores is here, Joan Flores, and she wanted to——

Ms. Flores. Promotion? [Laughter.]

Representative Rousselot. Did I say Congresswoman?

Representative Dymally. This is reapportionment? [Laughter.]

Representative Rousselot. We appreciate your coming and we did receive word from you and your office that you were very interested in this subject. And since you were nice enough to prepare a statement, I wonder if you could summarize it for us. We are delighted that you took time to come. Thank you for joining us.

STATEMENT OF JOAN MILKE FLORES, COUNCILWOMAN, FIFTEENTH DISTRICT OF LOS ANGELES, LOS ANGELES, CALIF.

Ms. Flores. Thank you. Sorry I am late. I will just stress the things that are important. Senator and Representatives, I am Councilwoman Joan Milke Flores. I represent the Watts, Wilmington, San Pedro, Harbor City, and Los Angeles strip areas of Los Angeles. These are the areas most chronically affected by lack of economic development, and therefore, I am glad to be able to testify here before you today.

We probably will never really come close to achieving the goals that we have unless we have jobs for all the people who need and want work. And we need jobs that pay a decent wage and that permit personal growth and that are meaningful to the individual.

We are very encouraged of curse by the priority that the administration has put on economic development. When we fail to have enough jobs for our people, we pay a very high price. The country loses between $70 and $80 billion for every percentage point of unemployment we have, and the country loses even more of course in human cost.

The ability of industry to finance planned expansion and modernization will influence where local growth and distribution of new employment opportunities will take place. And it is for that reason that I am encouraged by the introduction of urban jobs and Enterprise Zone legislation. Everybody agrees of course that it is risky to start up a business in the inner city. And some of those risks can be reduced, for instance, by improved police protection. But the risks are inherent in the nature of inner city business and the community.

It is the intent of the Enterprise Zone legislation of course to entice new businesses to create jobs in the inner city by providing tax incentives and other advantages. The Enterprise Zone area has not been tested anywhere in the United States. Given the critical need for a private enterprise environment more favorable to innovation and risk-taking than we have had in the past 10 years. It is unclear whether tax cuts will be enough to encourage commercial and industrial growth in areas where it is desperately needed. Tax measures alone cannot accomplish the goal of attracting increased business development to distressed areas, because taxation is not the only factor in a business decision on where to locate.

We need Federal cooperation and initiatives to support these efforts. We cannot expect to meet economic development growth by stimulating investment in an Enterprise Zone if we let lapse other vital programs for distressed areas such as CETA, UDAG, EDA, and Federal Crime Insurance.

There have been four bills, I understand, introduced to date. It appears likely that Congress may draw from proposals in all four of the bills.

We favor labor intensive provisions which will create jobs over capital intensive provisions which will build buildings. We would favor criteria for site selection such as have been used for the highly successful UDAG programs such as loss of population, poverty level, job out migration and age of housing stock.

I am convinced that these areas of our inner cities can be made as economically viable as the more prosperous areas given the tools proposed in the Enterprise Zone legislation. That area of my district commonly referred to as Watts is the ideal test bed for a demonstration project to show that this theory will work. And it is for that reason I strongly urge the selection of Watts as one of the first zones to be implemented under the provisions of the legislation.

Because I am so aware of the needs of inner city communities, I have taken the initiative in the city of Los Angeles to propose the formation of a task force to work with all levels of government to insure that communities like Watts can benefit from this type of economic development program. By using a cooperative approach with the county and the State, our purpose will be to formulate a proposal that will work with private industry and the Federal Government to stimulate economic development and put the Nation back to work. I hope that you will let me know what I can do to help you as far as the city of Los Angeles is concerned. And I appreciate your taking the time to hear me today.

I wish I could have attended the whole session, because I am very interested in this.

Representative ROUSSELOT. Thank you for being here and also for submitting a prepared statement. I am sorry, too, that you missed much of this discussion, especially some of the comments by Mr. Kendricks, who used to be involved in a CETA program. We might have him repeat for you at some point some of the problems he had when he had a successful CETA program, and what happened as a result of that success.

Let me just give to you quickly a couple of questions that have been raised here. One of the problems that has been discussed is unwarranted local zoning restrictions and/or building provisions that are either outdated or do not necessarily apply.

What do you think the attitude of large city governments such as the one in which you serve would be to lessening in these Enterprise Zones unwarranted restrictions? What do you think the attitude of Los Angeles would be?

Ms. FLORES. Well, I believe that is one of the concessions the city is going to have to make. We can't expect the Federal Government and State and even counties to make all the concessions. I believe if it is done in an orderly fashion so that we are not subjecting anyone to unsafe living or working conditions, that that very well is one of the things we will propose in our task force.

Representative ROUSSELOT. I am sure you are in contact and communication with other city councils from large cities. Do you think city governments are going to be willing to make those kinds of concessions of which you speak?

Ms. FLORES. I believe they are. They are already talking about making some of those concessions to stimulate housing. And certainly even a stimulation of housing is not going to do the whole job if people don't have money to pay rents for house payments. So I believe they are ready at this point to make some of those concessions.

Representative ROUSSELOT. You realize we have to work on the interest rates someplace, talking regularly to the Federal Reserve Board.

Do you see in your viewpoint, as has been discussed here, sometimes when we set up Federal programs such as CETA and some of the others, that there is an unreasonable burden of Federal regulation in the ability to have this flexibility of which we have been talking about?

Ms. FLORES. Yes. Certainly that has been a problem. And it is an ongoing problem.

Representative ROUSSELOT. How do we overcome that?

Ms. FLORES. I believe this type of legislation really is a lessening of restrictions by the Government. And that is why we favor it so much. We are not saying, "We will give you some money if you meet these guidelines." We are saying, "We are going to lessen guidelines and see if profit enterprise can't produce in the areas that we are going to lessen for you."

I think it is a lessening first and having private enterprise say "OK. You are giving us these concessions and we will come in and help solve some of your problems."

Representative ROUSSELOT. We have also had discussion that maybe there will have to be a lessening of Federal rules and regulations, such as the Davis-Bacon Act. What is your comment on that?

Ms. FLORES. I certainly would want to have to look at that. If we put them in areas that are depressed——

Representative ROUSSELOT. You are familiar with the Davis-Bacon provision?

Ms. FLORES. Right.

Representative ROUSSELOT. OK.

Ms. FLORES. I think if we have programs in these areas that are depressed, and if we stipulate, as I hope we will, that industry locating in the areas must employ from the areas as much as possible or increase whatever benefits we give them by providing employment in the area, I think some of that will be overcome to some extent.

Representative ROUSSELOT. Congressman Dixon wants to get in the act.

Representative DIXON. I will be brief, Congressman, so Mr. Kendricks can get in the act a little bit.

I am sorry there is no representative from PRC here this morning. I would just like to ask the panel, since it is an area in part that Councilwoman Flores represents, is there anything we are talking about here this morning that looks like or sounds like the ERC program? That is the Economic Resources Corp. located not in Watts, but in Lynwood. It is a 52-acre park. There is an industrial park there. The reason I raise this, Mr. Kadlec, is because at least according to some newspaper reports, at the conclusion of the

Congressional Research Service it has been a total failure as it relates to employing people from the area. One of the reasons I suspect is that there no training kind of structure program there. And I am wondering, since Ms. Flores is very much interested in employing people from the area, which she thinks is key, that if we don't do something, and I am not talking about necessarily Government training, but if we don't have some blueprint as opposed to what I would say is laissez faire, it will take care of itself, as it relates to that, this to me, at least in this community, is a clear example that it will not take care of itself.

Mr. KADLEC. Well, when we view that issue, what we see is that people who would go to work there today in the inner city, given their opportunity set for welfare support and all the rest, facing tax brackets in excess of 100 percent in various ranges, what you have got to do——

Representative ROUSSELOT. You show that in your study?

Mr. KADLEC. Yes.

Representative ROUSSELOT. OK.

Mr. KADLEC. What you have got to do is make it worthwhile for people to go to work. You have to make sure a person's family is better off, not worse off, when they work hard. You are not going to solve the problem of people not working until you somehow get tax rates down on low-income people. And that is why a very important part of our proposal is to reduce the payroll taxes, which start at 17 percent on the first dollar earned.

Representative ROUSSELOT. Payroll taxes?

Mr. KADLEC. The social security tax is 6.65 percent on employee and employer. That is a sizable chunk there. Plus you get another 3-percent-plus on unemployment insurance. And then you have 1 percent for disability insurance, in California. Cutting payroll taxes in half is modest, conservative. If someone said you ought to take it to zero, I would go to that.

Representative DIXON. You see it and I know you are familiar with this, but you say it is primarily a problem that the people that live in the area, that there is no incentive for them to go to work rather than a problem of a great reluctance of those employers to hire people within that community.

Mr. KADLEC. It is both. In order to pay somebody enough to get him through the door to beat the 100-percent tax rate, an employer finds he doesn't want to hire him.

And on the other side of it, yes, people have to see a rate of return to themselves, their families, to go to work. The real problem I have with stipulating job creation as part of the law, is that it discriminates against people in the inner city that want to start their own businesses. That is my real problem with it. It is great for IBM and great for any other big corporation to move that plant in there. But you put four forms in front of a small inner city businessman and his eyes glaze over and his business is done. He is not going to start a business because he can't handle those forms. It just discriminates so much against people who don't have legal skills but who are quite capable of starting a business.

And that is my real objection to stipulating in the law some kind of job reporting or requiring job training. It discriminates directly against the people who are the source of real growth and vitality in the inner city, which are the residents who live in the inner city.

Representative **Rousselot**. You didn't include the backup position in 100-percent taxation.

Mr. **Kadlec**. Yes, I did.

Representative **Rousselot**. Which chart?

Mr. **Kadlec**. Table 5 of my prepared statement.

Representative **Dymally**. I do want to follow up.

Representative **Rousselot**. Excuse me just 1 second. Table 5, "The Effects of Inconstant Taxes on Family Spendable Income from Wages and Welfare Benefits?"

Mr. **Kadlec**. Yes.

Representative **Rousselot**. This is what you are addressing when you talk about 100-percent taxation?

Mr. **Kadlec**. Yes.

Representative **Rousselot**. Thank you.

Representative **Dymally**. I am troubled by this phenomenon of new industrial plots without employing people in the neighborhood. A good example, of course, is the one in Compton. As I drive around and look around, I don't see a lot of people from Compton working there. My question is, Who benefits except the developer?

Mr. **Kadlec**. Who got the tax cut? The people who live in Compton did not get any part of that benefit, the tax cut. So it is not surprising they didn't benefit a whole lot from it.

Representative **Dymally**. What kind of instrument can we develop to insure the employer will hire someone from that city, from that zone, from that strip?

Mr. **Kadlec**. We don't have all the answers. The one thing we believe would contribute to that would be reducing payroll taxes significantly and exempting teenagers from the minimum wage.

Representative **Rousselot**. Do you do that just temporarily? How long do you exempt them from the payroll taxes, 2 years, 1 year, 3 years?

Mr. **Kadlec**. These are payroll taxes only for individuals residing within that zone.

Representative **Dymally**. I was about to get to that, because I know philosophically you are opposed to regulations. And therefore you would be opposed to my amendment because my amendment will mandate something which you are philosophically opposed to. I have no problem with your opposition. I just want to find out the solution, because my amendment will say that you must reside within the legal limits of Compton. Then you would say, "Look, you are putting in another Federal regulation; let's not do that." So your incentive, then, would be to say, "We will give you a tax break, you, employee and employer, tax break if the person hired lives in that zone"?

Mr. **Kadlec**. Yes.

If you require the manager to live in Compton, you may not get the business at all. Why preclude somebody who wants to start a business in Compton from starting his business there no matter where he lives? Instead of precluding that, what you want to do is encourage as much as possible the employment of people in the inner city. So it is more of a positive approach than a prohibitive approach.

Ms. Chilton. As a matter of fact, in our research when we were talking to the businesses about tax incentives, they said, "For small businesses it really isn't that significant because of our low income. But the thing we would like to have is a reduction of payroll taxes. That is most important, because it reduces our cost of labor," which is the biggest cost of doing business, particularly in a labor-intensive environment. It applies to the minumum wage.

Mr. Kendricks. I think that if you respond to the Congressman's question, Congressman Dixon's question why ERC failed, one of the reasons may be that you are constantaly trying to force square pegs into round holes. What people attempt to do is go to ERC, go to that area and hire, if they are going to hire people, based on some preconceived notion of skill that they need for a job, knowing full well in advance that skill isn't there. And as you said before, you need to put the person in the position for them to get the skill.

Mr. Kadlec. Yes.

Mr. Kendricks. Now, it is clear if that is what he is saying, then I have to agree 100 percent that ERC or Compton, as Congressman Dymally pointed out, or the Carson Park out there, you don't see a lot of the local indigenous people working there. Why?

Ms. Chilton. It is warehousing primarily.

Mr. Kendricks. On the other hand they continually push these preconceived notions of work.

Representative Dymally. Why, then, in warehousing where you drive this little cart, why, then, would they not hire someone right there?

Ms. Chilton. Well, they do. The community does work there, but there are not that many jobs in warehousing particularly for the space they utilize.

Representative Rousselot. It takes up a lot of space, but few people are required.

Ms. Chilton. That is right.

Mr. Kadlec. That is a targeted program. It doesn't help the guy who is across the street who may want to run a plant cleaning service or a garage to maintain the cars that people who live there have. It doesn't do anything for those people. It presumes, as Mr. Kendricks pointed out, it presumes people want to work in that building as opposed to support that building. And so it restricts opportunity as opposed to encouraging opportunity everywhere.

Mr. Hazlett. I am a little nervous, too, about looking at those numbers. I am assuming the study that says ERC is a failure in terms of hiring local people——

Representative Dixon. In that aspect.

Mr. Hazlett. We are talking about the particular corporations that were brought into this industrial complex, who they hire. If you simply look at those visible effects of the program, you are going to be disappointed more often than not. That is not looking at all the effects of the program. You can't tell me that if we figured out a way to take 100,000 aerospace workers and start a new busing program, bus them from Santa Monica every morning into a couple industrial complexes, in Watts and the firms operating there hired nobody in that neighborhood, that that would not tremendously benefit the economic environment existing in Watts.

You would have a tremendous new demand for goods and services, and you would have tremendous incentives for the community now to itself start embarking on certain self-starting urban renewal projects. Let me just conclude the point that I think we are wrongly looking for coprorations to come and give people jobs. I mean, that is what we are talking about. Can a company come in and give local people jobs? I don't think it works like that. We are leaving out what I think is the most important aspect in any Enterprise Zone, and that is, the involvement of a local community group which has to be vested with a significant property right in the community in which we are going to be handing out these tax benefits. You have to vest them with the right to own that property, share in the equity increase of value through neighborhood associations via the homesteading process.

Representative DIXON. How do you do that, vest them with the property right?

Mr. HAZLETT. This country was settled that way.

Representative DIXON. But we are talking about 1981. We are not talking about when this country was settled.

Ms. CHILTON. Illinois has homesteading.

Mr. HAZLETT. We have got to look at history to find out what to do in 1981. You would take a blighted area and more or less offer various groups the opportunity to homestead that property, to show in a legal proceeding that they are going to be able to utilize the services and buildings in that area to the satisfaction of the court. This is sort of a homesteading process that is taking place now through HUD programs.

Representative ROUSSELOT. In a relatively minor way.

Mr. HAZLETT. Well, that is what the Enterprise Zone hopefully is going to correct.

Ms. CHILTON. But the State of Illinois has done what he is saying, incorporated both home and shopsteading.

Mr. HALL. They did it in Baltimore also.

Representative ROUSSELOT. I know, in Baltimore rather extensively.

Mr. SCHEELE. I would like to talk about one other area of regulation.

Representative ROUSSELOT. Let me just comment on the Baltimore thing. The person that is going to live in the place has to come in and do a certain amount of work and so forth.

Mr. HAZLETT. That is the point of homesteading. You don't just say "I own that" and walk away.

Mr. SCHEELE. Homesteading requires you to do the homestead work.

Representative ROUSSELOT. That means there is an obligation imposed by somebody. In this case it happens to be a local redevelopment agency.

Representative DIXON. That is what it is.

Mr. SCHEELE. Let me say there is one other area of regulation that we haven't talked about that I think is important, and that is, the restraint of trade barriers. Part of the reason that Japan has been successful in exporting not only to this country, but throughout the world, has been their trading companies and the fact that domestic competition is looked at differently from export competition. Let me suggest that although it is difficult for small businesses to directly export, we could encourage the formation of trading companies that would, in fact, aggregate markets and products from Enterprise Zone producers. Part of the problem is that small companies can't undertake the extensive strategic planning and market research that would be necessary to define markets.

But believe me, there are a lot of markets that exist for U.S.-type goods. Unfortunately, what we have done for our own domestic production is counterproductive. I will give an example of a refrigerator. It is very difficult to sell in Indonesia, which is a potential buying country. Let's say a refrigerator that dispenses water through a door, makes ice cubes, and all these things. What they need is a refrigeration unit that you could convert a barrel with some insulation into a refrigerator. And we know how to make a lot of these sort of intermediate technology products. We probably make refrigeration systems better than anybody in the world. Our own domestic experience is that your refrigerator lasts probably as long—in fact, I think all of them were made too well. If anything, they last too long. So, it is a matter of defining these markets and enabling small businesses to start up and to serve them in a way that would not be, let's say, possibly condoned without creating all of this new economics. Then you are going to get into the Davis-Bacon debate and is it more here or there. If you are not making the pie bigger, then you are fighting about pieces. So, I think that part of the effort to get through a successful Enterprise Zone program is going to be that, at least to some extent, they create new markets.

I agree there are benefits in improving the quality in these communities. I also think these communities are too valuable as hatching places for new businesses to allow big business to come in there and park. I mean, I don't think that you want to take them up that way. I think that you want to get them shaped up and then move them out. We have a tradition already well established that the underprivileged get pushed off the land or in other ways come to the cities for sustenance. The cities are always going to have vital resources.

Representative ROUSSELOT. In the drafting of our legislation, how do we prevent the parking of the big corporations? I am not sure I quite understand what you are saying.

Mr. HAZLETT. It is debatable. If you want to prohibit that, I should point out that I think a lot of areas would be happy to have big businesses come and park.

Representative ROUSSELOT. Ms. Chilton.

Ms. CHILTON. Yes. With regard to the ERC, I am somewhat familiar with that and I also know a couple businesses that did open up there and hire a great number of minorities, D. & V. Plating.

Representative DIXON. According to this report, that plating company has 45 employees. Eight are from the area.

Ms. CHILTON. Well, the indications from the report that I had received and I remember also reading an article in the newspaper about it. If the information is true that they have eight employees from the area, I, too, would like to know that. But when we say they are not from the area, I really don't know what you mean.

The immediate area or the peripheral area? Because they were quite strong in their conviction in the report I saw.

Representative DIXON. As from that report, I am reading from this report, the majority of people from this particular plant you are citing came from La Puente.

Ms. CHILTON. Where?

Representative DIXON. La Puente.

Ms. CHILTON. Most of them did?

Representative DIXON. It says 8 of the 45 came from the area and the majority came from La Puente. I agree with you, there is one organization cited in this report that did an excellent job, because they had a commitment. And that was Lockheed. But of the some 50 employees—I mean employers there, Lockheed is the only one that has done that. It is because of an individual member of that corporation and his commitment. And I suspect that you are not going to find en masse that kind of commitment from outside businesses coming in.

Ms. CHILTON. Not unless you give them an incentive. I agree with you. You are going to have to give them some incentives to do it, that's right.

Representative DIXON. That is what we have been saying. I am not arguing with you.

Ms. CHILTON. That is right. I agree.

Mr. HAZLETT. You have to recognize there is a tradeoff involved in that. If you make certain conditions which appear onerous to the corporation to come in there and employ local people, then you are going to have less investment overall. There is going to be less people working there and spending less money on local services. So you have to recognize those things don't come for free. There is a tradeoff involved.

Mr. SCHEELE. I think this is a perception problem. I think what has to happen, if there is going to be a marriage, is that people who create the jobs from larger corporations—established organizations—have to have some forum, some place, where they can have experience what planning and doing things with people from the area is like so they won't have these strange perceptions about what their skill sets are, what their capabilities are, what their interests are, what the commitments are.

And, I think if you would start them at 2 a.m. in the morning and run them to 8 a.m. in the morning, you may change a lot of people's perceptions about who is willing to be up all night.

Mr. KENDRICKS. To follow on Sam's point, people in Canoga Park clearly view Joan Flores' district differently than those people who live in that district. And those people who live in that district clearly have enterprising ideas. But as viewed from the outside, be it a large corporation or otherwise, the prospect of those people who run those corporations clearly see the people in her district as being totally different than they see themselves.

And I am certain that they see themselves as having skills, as wanting to start businesses, as wanting to grow, as wanting to have steak when they can't afford steak. Nobody wants to be poor. I mean, most people I come in contact with in the inner city want to start businesses.

Now, the issue is, how do they get those businesses up in operation? And if those corporations are going to come into the Enterprise Zone as Sam says to sit there, I think they have an obligation to assist those small businesses or those people in those areas to develop those ventures.

Representative ROUSSELOT. I don't know how you write that into the law.

Mr. KENDRICKS. I don't either.

Representative ROUSSELOT. That is the toughest part.

Mr. KENDRICKS. We have tried to suggest an approach in terms of technical assistance, planning teams, embarkment teams and so forth that respond——

Representative ROUSSELOT. You made several suggestions.

Mr. KENDRICKS [continuing]. That respond to that approach. And I don't think that Enterprise Zones will be successful in the innercity if you park large corporations in there that have no commitment to the growth and development of those people who live there.

Now, anyway, you cut it and all the trade-offs be damned. That is what is going to have to occur. Otherwise what we have are large incentives given to businesses to come in that do not stimulate the growth of the area.

Representative ROUSSELOT. Yes?

Mr. HALL. Could I make a comment on that. It seems to me that what you may be looking to is not so much large conventional manufacturing corporations, but you may rather be looking to financial corporations who can provide the right sort of capital, indeed a new kind of venture capital. We keep hearing that, in California, new venture capital corporations are starting, like in Silicon Valley, or the bright engineer that is going to set up his own company and is pumping money into it. They are not going into Watts pretty clearly.

I think we need to find some way, I am not quite sure what this is, of getting a new kind of venture capital corporation to put money into entrepreneurs in those areas, maybe giving them some incentive to do so, because the risk may be higher than it is in Silicon Valley, although it is high there also. That is one point.

Associated with that, I don't think you are ever going to get these zones going without some form of what could be called bureaucracy. Now, that is a bad word, but if I go or any of us went to our bank manager to borrow money for a venture, we would get involved with the Bank of America bureaucracy or the Wells Fargo bureaucracy which happens to be private bureaucracy. You don't make decisions about whether to put money behind individuals without some process of decision. And that involves some kind of bureaucratic process. The question is, what kind of bureaucratic process.

Representative ROUSSELOT. Mr. Kendricks pointed out in his presentation that financing was a very important factor. But, he also talked about teams which would provide technical assistance.

Mr. KENDRICKS. These teams come from the inner city. There is a need to—let's assume for the moment that Mr. Hazlett has a corporation, and he runs an ad in the paper, in the Los Angeles Times that he will be opening up an approach for pipe designing in an engineering concept, which by the way Parsons did in 1969 for inner-city residents, and that they are to report to x place at 6 a.m. on some given date. And from that group of people he chooses 25 or 30 people to start discussing the approach for developing pipe design engineers.

At some point he is going to have coming out of his door pipe design engineers who can open up either job shops and sell their skills, or they can go to work for his company and do the work that is needed there for pipe design engineers. But the resource resides in the inner city.

I mean, if we are going to assist the inner city, we can't continue to treat them as denied people. I mean, they have skills. and we need to gather up those skills and identify them, whatever process you use. I mean, Mr. Hazlett, I didn't mean to use you in that example, but that is what I am getting to. The teams can be identified, embarkment teams.

Mr. KADLEC. My only comment in terms of the legislation is, to the extent you try to create specific requirements to create "embarkment teams", to channel capital to particular kinds of individuals, every time you do that to the exclusion of just an across-the-board increase in incentives, you start excluding people you can't even see.

Mr. KENDRICKS. I am not doing that.

Mr. KADLEC. I understand that.

Representative ROUSSELOT. We do it regularly in the Federal Government. We allocate credit all the time.

Mr. KADLEC. What you want to do is create an environment so that "embarkment teams" can take place if people choose to do business that way. Formation of embarkment teams should not be precluded. But at the same time, if someone wants to get together with his cousins and start up a business, the storefront business, they should not have to have an embarkment team to get into business.

Mr. KENDRICKS. And I am not saying that. I am talking about spontaneity.

Mr. KADLEC. I think we are very much together. I don't disagree with any of those approaches per se as long as they are not compulsory. I think they are great ideas.

Mr. KENDRICKS. But you have to give them support.

Mr. KADLEC. That is the issue, then. The issue is, How do you give them support without making them compulsory?

Representative ROUSSELOT. What kind of further tax incentives on investment would be effective in what we have already done or what we have talked about today?

Ms. CHILTON. As far as the pools of investment for the distressed area, many suggestions were put forth such as to unleash and unlock all of these funds that are being currently or at least portions of the funds that are being put into tax shelters, into money market funds, whatever. These are risk funds to start new ventures. It's venture capital. You use the same incentives and tax advantages of oil and gas ventures to encourage people to put their money into Enterprise Zones.

Representative ROUSSELOT. Will this be in your report?

Ms. CHILTON. Yes.

The use of limited IRA funds for retirement. Perhaps $2,000 could be put into small business funds for development anywhere. Not just specifically Enterprise Zones. And these are just some of the—another one involves combining a business in an area giving incentives to employees to work in that area—to stay in that area after they are trained. Homesteading is another. Allowing the business to provide the credit, for the employee to buy a house, renovate a house, or rehabilitate a house. The business signs for the employee, with the authorization of the employee for a payroll deduction. The business makes the loan payment on the house, land, or whatever. There are a lot of different innovative suggestions proposed.

Representative DYMALLY. One question. Why would I want to leave the Texas border where I can get cheap undocumented help and come into the inner city to open up a plant?

Ms. CHILTON. The Texas border?

Representative DYMALLY. Yes. El Paso.

Ms. CHILTON. As a business?

Representative DYMALLY. Yes.

Ms. CHILTON. Any businessperson can see that there are more advantages in the inner city and that is where he will go. He takes a pencil and figures it out.

Mr. HAZLETT. There are obivously businesses that are not located in Texas. So there are other offsetting incentives to locate in different areas. All we are talking about here is increasing those incentives.

Representative DYMALLY. I am in the Midwest and I want to expand. I have chosen to go down to Arizona, New Mexico, Texas, California border for cheap undocumented help.

Mr. HAZLETT. The only consideration is not cheap labor, or everything would be located in Bangladesh. You make offsetting considerations.

Representative ROUSSELOT. Was that enough of an offset? That is really the question he is asking.

Mr. HAZLETT. We hope it is. That is what we have got to develop here, a set of incentives. I don't think we are talking enough about community involvement and the neighborhood groups. We are going to have to clean up neighborhoods and take care of the crime problem and other services. I just automatically get nervous when people start talking about getting the small companies in. If the small companies are so terribly efficient, I don't see that the plea that they need to be therefore protected from inefficient corporations follows. I would like to pose this question. Do you think the small businesses in the city of Detroit benefited from the fact that large auto companies have been disinvesting in Detroit the last couple of years? Do you think that created a boom period for the small businesses? Obviously not. It is not a zero sum gain. When big business takes off, the small business, rather than boom as a result of that vacuum, more often falls with it.

I would think attracting big businesses to these Enterprise Zones would be a real coup. I would consider that a major victory and spur real incentives for small businesses to locate next to them.

Mr. KENDRICKS. I would like, if you are characterizing our comments as denigrating large businesses, I want to indicate clearly here that what we are saying is, there has to be an appropriate mix, a proper balance. We think that bringing in efficiency will clearly stimulate economic growth in the Enterprise Zone. We are not arguing against that particular point.

Mr. KADLEC. Again from the point of view of legislation, how do you legislate an appropriate mix?

Mr. HAZLETT. I think we should be colorblind on that issue.

Ms. CHILTON. You can't.

Mr. KADLEC. I think you get in self-defeating areas. You want to open up the system and let the mix be what it is instead of trying to anticipate ahead of time what is appropriate.

Representative DYMALLY. I just want Councilwoman Flores to join in this dialog.

Ms. FLORES. It is very interesting. I do want to add if big businesses are attracted into the community, there will be small support businesses established. And I think that some of the proposals that will come from communities like Watts who are hoping to get designated an Enterprise Zone, we are hoping some of the ideas we present will be innovative enough so they will receive special consideration. We don't expect you just to take Watts and make it an Enterprise Zone because it is Watts. We want to say—for instance, we would like to have people in the community organize day-care centers and start day-care centers that would be a small business that would be a support service for the large industries coming in. And we want to help develop those kind of programs. We have already talked with large industries and asked if they wouldn't be willing to help us in our application to provide perhaps a position of computer analyst or somebody to set up the management or payroll specialist or personnel specialist to come in and give assistance to the small businesses and tell what kind of support businesses are needed and then look for them.

We hope that our proposal will be better than just the average proposal by these kind of things we are going to suggest.

Representative ROUSSELOT. Well, thank you. It is past the time of 1 p.m., and we promised everybody we would conclude this hearing by 1 p.m. But, Congressman, this is your district. You get the last question.

Representative DIXON. From the conversation that I have heard this morning, let me ask is there any value in constructing this legislation, in developing several kinds of models going at the same time——

Mr. KENDRICKS. Definitely.

Representative DIXON [continuing]. Try to verify what will work and what will not work and that the legislation should be broad enough to allow the administration of it so we can try in different parts of the country things that may work there, whereas they may not work in other parts? Is there some value in that, I am wondering.

Mr. HAZLETT. You should never ask a social scientist as to the merit in doing a social experiment. Obviously. Anything to get paid.

Mr. SCHEELE. We all learn a lot. I would say, to talk about the Detroit example, that if we had to depend on Detroit right now to be smart, we have lost. The Government has no lock on inattention and bureaucracy. Business in this country also has problems. And I think that if there is anything, we need some areas with new enterprises. Most of the jobs, like most of the new products, that people are going to be employed in 20 years from now we don't know the name of today. And I think most of the products we are going to sell we don't know the name of. I think it's also true there will be more services than products. America has never really been very good from the raw materials to the shipping platform. But from the shipping platform to the cash register there is nobody in the world that has done as well as we have. So we have got the advertising industry, the television industry. I mean, there are a lot of industries that we can be really tops in the world at and we can still make some things, too.

Mr. Hall. Let me quickly say, I echo that. Could the committee please think of ways in which tax incentives could be given to people who were willing to invest even from outside in venture capital enterprises in this zone. We have seen the new all-saver certificates to help the savings and loans. And also we need similar tax relief for investment targeted in new Enterprise Zones.

Representative Dymally. Mr. Vice Chairman, most of these committee meetings are held to educate the public. In this case I have been educated. This is the first time I have had a good understanding of what the Enterprise Zone is, and I am better prepared today than I was at 8:59 this morning.

Representative Rousselot. That is an excellent preamble to our statement to all of you. Thank you for preparing statements and for being here. If you have additional thoughts on the way we can draft legislation that will be effective, please let us know. And let me thank each and every one of you for being willing to participate so throughly, and each of my colleagues for their willingness, Senator, for your also taking the time to be here. And we are now going to adjourn, unless somebody has a very important statement to make.

Ms. Chilton. I do. May I?

Representative Rousselot. Yes.

Ms. Chilton. The last word?

Representative Rousselot. Sure.

Ms. Chilton. I thank you again. This is such an important issue, because, as you all know, the ramifications can be universal. And I am sure it is going to be in good hands. Just be very, very careful with it, because this is the only country we've got.

Representative Rousselot. Thank you. That is a good point.

Let me just conclude by saying there is an interesting Enterprise Zone going on in Florida right now which is called EPCOT. I don't know if any of you know about it. This was Walt Disney's ultimate dream; the experimental prototype community of tomorrow. There, they got the total cooperation of all levels of government, primarily local, to go in and put in their own sewer systems, their own water systems, and so forth. Everything was done on a private basis. And I hope that we can learn, as we have learned from you today, of ideas like that. So many of these experiments are creative. As you know, they are bringing in people from all over the world to think about what we do in communications, what we do in transportation, what we do in development of land, et cetera.

I am not trying to promote Disney, but one reason they say it is succeeding is that they were able to go to the local governments and get total cooperation so they would put in whatever they wanted to do. All of the zoning laws and everything else were set aside.

Thank you again for giving us your ideas. And we hope that you will not stop in providing us with your ideas. Your ideas will be considered as the Congress and the administration draft and judge Enterprise Zone legislation. Again, thank you for being here.

Before adjourning, I will place the statement of Hon. Bill Leonard, assemblyman from the 67th district of the California State Legislature, who was scheduled to be a witness and was unable to attend due to foul flying weather, in the hearing record at this point.

[The statement follows:]

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BILL LEONARD
ASSEMBLYMAN, SIXTY-SEVENTH DISTRICT

PRESENTATION TO: JOINT ECONOMIC COMMITTEE - SUBCOMMITTEE ON MONETARY & FISCAL POLICY

DATE: OCTOBER 23, 1981

SUBJECT: FREE ENTERPRISE ZONES

Free Enterprise Zones are becoming government's panacea to economic problems. As unfocused, untargeted concepts free enterprise zones receive a broad range of support. Now that we have raised the issue of ungovernmental incentives to job creation and retention, it is time to set goals, determine strategy, and get to work.

The three major target areas for free enterprise zones are: (1) revitalizing declining businesses; (2) giving incentives for development of land by existing businesses, and; (3) encouraging the creation of new businesses.

Strategies for targeting each of these areas are often overlapping, but it is important to determine needs and set goals prior to implementation. The bias should be in favor of employment. Direct productive employment is the greatest economic and social benefit that can be derived from the free enterprise zone concept.

The target of revitalizing declining business addresses the problem of uneconomic, outdated, or polluting industries. These businesses often are closing or laying off workers due to external pressures. For example, the G.E. steam iron plant in Ontario is closing due to lack of sales. The market no longer exists for the product. In order for government to intervene and save these specific jobs tremendous tax advantages would have to be granted. Sufficient tax incentives could be offered to overcome the market problems. While there is a role for this strategy in saving dying industries, care must be taken to analyze whether it is cost-effective to retain these particular jobs over other possible job creation efforts.

Similarly, giving incentives for development of land all too often results in communities competing against one another for plant location investigations. No net gain of jobs is realized when a plant is merely moved to a new location. Redevelopment history gives evidence to the futility of this type of government intervention.

Jobs and economic vitality are to be found in new businesses and in the expansion of small businesses. Statistical analyses bear out the point that jobs, particularly new jobs, are found in small business. If one-half of all the small businesses in the United States were to hire one additional employee, there would be zero unemployment. This is evidence not only of the scope of small businesses, but of the potential for job creation on a vast scale.

These target areas were examined in August of 1981 by the California State Assembly Committee on Economic Development and Planning. A substantial number of comments were directed at the need for community consensus and involvement. Local governments want and need a major role. Community/Neighborhood want an opportunity to participate. The success of any free enterprise zone as judged by the number of jobs created and retained may well be dependent on the degree of which community involvement is generated.

Of course, the keys to economic enterprise must be acknowledged even in the midst of designing government inspired incentives for job development. Labor and capital are essential components of any successful enterprise. We are assuming that every free enterprise zone will be located in a labor surplus area.

Capital is rarely sufficient to meet the needs. For new small businesses institutional markets for capital do not exist. Much of the capital investment in new business is made by relatives and friends of the intrepreneur.

Government is not able financially or administratively to provide capital or to upgrade labor's job skills. The most that we can and must ask of government is not to strangle the entrepreneur with regulations and taxes. Any business owner who is able to put together labor and capital for the purpose of making a profit should have the encouragement of governmental entities at all levels.

My legislation, A.B. 1347, targets those governmental regulations and restrictions that are most burdensome to new small businesses. The target is to create new jobs with existing or new small businesses. I have met with small business owners to determine their list of government disincentives to business. The list presented here will be enlarged as additional items are received.

I have purposely avoided tax relief measures. The major reason is that small businesses, particularly new small businesses, pay little income tax. The other reason is that government cannot afford the magnitude of tax reductions needed to provide meaningful incentives to small business owners and investors.

Since capital is such an important prerequisite to any business enterprise, every possible incentive to investment should be explored. While small business owners may not benefit from tax incentives, it is possible that such incentives could be designed to benefit investors. Tax incentives of this nature would be best developed at the Federal level. No State tax system has the same significant impact upon the taxpayer as does the Federal tax structure.

I understand that legislation is before Congress to authorize the issuance of small business investment debentures that combine for tax purposes the advantages of both debt and investment. The leadership of Congress in this area is to be commended.

At the State level the primary direct assistance for small businesses is regulatory relief. Every aspect of governmental activity is open to criticism for imposing burdensome requirements and procedures upon small business. The mandate must be laid on government to review this regulation in conjunction with business owners with an eye to elimination, reduction, and simplification of government.

The list I have compiled includes the following:

1. Modification of requirements for environmental impact statements by private parties.

2. Withdrawal of State mandates regarding planning and zoning and authorizing local governments to develop their own plans.

3. Repeal of the prevailing wage mandates for public works projects. (Little Davis-Bacon)

4. Exemption from the rules of the wages and hours standards of the State.

5. Mandate that utility rates be levied at the actual cost of power without unfairly subsidizing other ratepayers.

6. Adoption of law that permits open shops.

7. Authorizes speed-up of building permits and other development permits by the local community.

8. Prohibits local rent control laws.

9. Authorizes reduced rates on State mandated unemployment insurance and disability insurance. This can be accomplished by pooling and other risk-spreading programs.

10. Authorizes and encourages contracting out of any and all governmental services. This holds potential both for improving the effectiveness of governmental services, and also offering business opportunities within the zone.

11. Requires State and local governments (Federal, if possible) to join together and offer unified service desks that can advise, issue permits, licenses, tax forms, and all other activities relevant to new and expanding businesses.

12. Authorizes cities and counties to create self-governing boroughs within their communities, thus giving zone residents a greater voice in their own future.

13. Authorizes the suspension of all building codes and authorizes local communities to require surety by builders to insure safety and health of people in the building. Building codes have contributed to the decline of innovation and quest for cost-effectiveness in construction. The insurance and tort systems are more than adequate substitutes for government run health and safety requirements.

14. Exempts the minimum wage mandate.

These items are all designed to ease the government burden on small, new, and expanding businesses. Where the existing requirements offer substantial protection to the public, substitution of protection and/or local community control of the issue is authorized. Thus a great amount of disincentive is removed with minimal effect upon the public's health and safety.

As is obvious, the list is long and still incomplete. Government's role in encouraging business development by the means of free enterprise zones should be to work closely with business men and women in developing incentives and removing disincentives. This role is truly an indirect one for government, and a role that is usually not satisfying to government. However, due to the importance of developing real productive jobs, it is a necessary role. For jobs are created with labor and capital combined to produce goods and services. This is the greatest benefit of the free enterprise system.

Representative ROUSSELOT. The subcommittee is adjourned.

[Whereupon, at 1:22 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

INDUSTRIAL REVITALIZATION
THROUGH
ENTERPRISE ZONES

BY

James W. Kendricks, JD
D. Sam Scheele
David B. Rabinek, JD

INTRODUCTION

A Plan For Revitalization, Disincentives Doom the Inner-City, an Article written by Arthur B. Laffer, proffessor of business economics at the University of Southern California, in the Los Angeles Times on August 7, 1979, Part IV, p. 3, states..... inter alia...."In order to attract business to the inner-city, firms need to anticipate after-tax profits. Firms don't locate their plant facilities as a matter of social conscience. A halving of business income tax rates for inner-city firms would go a long way toward providing socially constructive incentives.

Given the current absence of profitability in the inner-city, such a big reduction in tax rates would have little effect on business tax revenues. To the extent that some unemployed found work and some welfare recipients earned more, federal, state, and local spending would fall.

Equally important is the need to assure something other than "absentee businesses"- firms located in the inner-city but employing suburbanities. This would require a halving of both employer and employe payroll tax rates up to an annual wage rate of $6,000 for firms located in the inner-city for hiring an employee whose principal residence is also in the inner-city. Such a dramatic reduction in payroll tax rates again would mean little net revenue loss. Every person newly employed would save much more in welfare and unemployment compensation than he would cost in forgone taxes. Higher income, sales and other tax receipts would also occur because of more output. Less poverty and despair would ultimately lead to more efficient educational spending, less need for police protection, etc."

"An effective inner-city redevelopment program would be to exempt teen-agers from the minimum wage law. This change, as proposed by numerous legislators in Washington, would have some immediate beneficial effects. It would, to the extent teen-agers found jobs from the increased business activity levels in the inner-city, also reduce deficits. Its most important effect, however, would be long run. Teen-agers would now be able to become apprentices and learn the requisite skills to become productive members of the work force. As such, this step is crucial for a permanent solution to the decline of the inner-city.

A comprehensive plan to elevate the inner-city would be to relax major regulatory disincentives such as voluminous arcane building codes. Federal relief should be, in part, conditioned on a demonstration of serious efforts to relax unnecessary and unwarranted impediments to private economic activities. Thus, revenue sharing, grants-in-aid and the like should incorporate criteria along these lines.

Such a program could go a long way toward revitalizing a crushing social, economic and moral burden. It would acomplish its task by reinstating incentives where they are most lacking."

Social Engineering Technology, Inc., has set out a conceptual framework to accomplish these objectives. Included in our conceptual design is proposed legislation, An Alternative to AB-416, (Nolan), Enterprise Zones a New Herbicide for Urban Blight, and Support Communities for Industrial Development.

All together our components will go a long way toward stating the specifics required for industrial revitalization in the United States.

SECTION I

ALTERNATIVE PROPOSAL
TO AB-416 FOR ENTERPRISE ZONES

PRELIMINARY DRAFT

Alternative Proposal
To AB 416 for Enterprise Zones

Section 1. Chapter 12.8 (commencing with Section 7070) is added to Division 7 of Title 1 of the Government Code, to read:

CHAPTER 12.8 ENTERPRISE ZONE ACT

7070. This chapter shall be known and may be cited as the "Enterprise Zone Act."

7071. The Legislature finds and declares that the health, safety, and welfare of the people of the state of California are dependent upon the continual encouragement, development, growth, and expansion of the private sector within this state that need the particular attention of government to help attract private sector investment into these areas. Therefore, it is declared to be the purpose of this act to spawn and stimulate the inception and growth of business and industrial activities within the depressed areas of this state which otherwise would not be started or prosper by means of related government controls and selective self-liquidated financing.

7072. The following definitions are used hereinafter in this description:

(a) "Council" means an Enterprise Enablement Council to be made up of five members: the senior official from the Economic Development Commission or (the Department of Economic Development), the Employment Development Department, the Department of Business and Transporation, the Department of Food and Agriculture and a nominee of the Assembly with the consent of the Senate and the Governor.

(b) "Enterprise Zone" means a self-defined area which successively is a petitioner for recognition, is given candidate status to proceed with organization, is granted provisional status to develop capabilities, is found qualified to proceed with self-defined actions, and is authorized as a fully functioning entity each eligible for the benefits of this chapter.

(c) "Person" means any individual, partnership, association, corporation, cooperative, firm, or club.

7073. The Council shall administer this chapter and shall have the following powers and duties:

(a) To propagate the availability of the benefits for creating Enterprise Zones to potentially persons along with the procedures to follow and the availability of organizational assistance from designated qualified organizations

(b) To establish clear definitions for potential Enterprise Zones (EZ) as well as of the relief, benefits, and assistance available to Enterprise Zones (EZ) in their successive stages of realization from petitioner EZ's to candidate EZ's to qualified EZ's to authorized EZ's.

(c) To determine if the successive representations made about the Enterprise Zones are accurate and plausible and that the Enterprise Zone should be granted the relief and benefits of the next higher status

(d) To formulate minimum standards regarding pollution, zoning, health, safety, and other considerations for Enterprise Zones, the members determine which are in the public interest and to direct that simplified administrative law procedures with judicial review be effected to rapidly and expeditiously settle disputes within the EZ's arising from the implementation of the parts of this Chapter or the actions of private persons enabled and assisted by this Chapter.

(e) To guarantee loans to fund preliminary organizing and planning activities through the period, while an EZ becoming a fully authorized entity until these monies can be repaid from proportioned subordinated liens on all the real properties in the EZ.

(f) To monitor the implementation and operation of this Chapter and to conduct evaluations of the private activities stimulated by this Chapter.

7074. Any person or persons can pursue the designation of a depressed area as self-defined enterprise zone by notifying the

the local government of their intention to create an EZ and its proposed extent and then obtaining the written support of not less than 500 citizens (or a majority if less than 500) residing in the potential zone, plus having through the offices of the County Tax Assessor notified the owners of all property within the potential EZ and not received written opposition within 45 days from owners representing more than 50% of the assessed value of private real property within the potential EZ and next requesting certification of these representations by the unit of local government which will act within 15 days of the date the certification is requested and which will not unreasonably withhold certification. Absence of any decision by the local government within the required time period shall constitute default certification. (Add procedure for initiation of EZ by local government unless questioned by citizens (number) or property owners (% of value).

7075. Once a potential EZ has been certified by a local government, it shall be known as a petitioner EZ and be eligible for:

(a)

(b)

(c)

...

and a petition will be prepared describing the EZ with its intentions and prospects following a general outline prescribed by the Council and then submitted to the Council who shall act to review the petition and determine if the petitioner EZ should be recognized as a candidate EZ. The The Council shall complete its review within 90 days with an additional 30 days if necessary. If the Council denies the petition it shall inform the local government and other initiating persons of that fact and the reasons for the denial. If the decision is not rendered by the Council within the required time period, the petition shall automatically be recognized and the EZ be granted candidate status. Once a petitioner EZ has been recognized by the Council as a candidate EZ, it shall be eligible for:

(a)
(b)
(c)
(d)
...

and the candidate EZ will prepare plans and conduct organizational activities to demonstrate and validate:

-
-
-
-

The results of the planning and organizational activities will be documented in a general format as prescribed by the Council and then presented to the Council requesting that it grant the EZ provisional status. If the Council denies the petition it shall inform the local government and other initiating persons of that fact and the reasons for the denial. If the decision is not rendered by the

Council within the required time period, the petition shall automatically be recognized and the EZ be granted provisional status.

Once a candidate EZ has been recognized by the Council, as a provisional EZ, it shall be eligible for:

(a)
(b)
(c)
(d)
(e)
...

and the qualified EZ will move ahead with self-defined actions necessary to satisfy the contigent conditions set by the providers of the human, capital, and other resources committed to the business plan of the EZ. The fulfillment of the contigent conditions and any other obligations and stipulations will be documented in a program statement using guidelines specified by the Council and then presented to the Council requesting that it find the EZ capable of proceeding, declaring that the subject depressed area is now a fully authorized EZ. If the Council denies the petition it shall inform the local government and other initiating persons of that fact and the reasons for the denial. If the decision is not rendered by the Council within the required time period, the petition shall automatically be recognized and the EZ declared to have automatically be recognized and the EZ declared to have authorized status.

7076. Once an area becomes an authorized Enterprise Zone either by declaration of the Council or automatically as provided in Section 7075, the State and any units of local government that own any land within the Enterprise Zone shall sell the lands defined in the authorized EZ's plan and agreements to qualified buyers in public auctions.

7077. No business enterprise locating in an EZ after it has been recognized as a candidate EZ shall be eligible for any subsidy, grant, or any other form of government assistance for operations in the EZ location except as specifically provided in this chapter or part of a generally available tax relief provision of the Code of the United States Internal Revenue Service.

7078. The major business objectives of any business receiving Special capital funding based on loans or other capitalization endorsed, guaranteed, or directly provided by the EZ shall be the production of goods or services for a preponderance (more than 65%) of sales outside the United States and, except for intermediate suppliers of services and OEM equipment, virtually 100% of sales outside the EZ (excepting incidental sales for personal use of employees and residents of the EZ limited to 3% of total sales).

7079. The rules and regulations dealing with EZs promulgated by the Council under this Chapter shall supercede all state and local regulations deal with the same area as well as state and local laws controlling prices, wages, building codes, zoning, and other activities shall not be effective in EZ except where specifically allowed by EZ's plan.

7080. Industrial and commercial facilities to be built in the EZ after candidate status will increase the number of dwelling units available and will incorporate a mix of dwelling types to include "single room only" units and units offering partial care and meals for residents. As necessary to at no time decrease the residential units available in the EZ, residential components for new industrial and commercial facilities will proceed and be completed ready for occupancy ahead of demolition for the non-residential construction. Mixed uses that increase and assume continuous active and concerned occupancy within all parts of the EZ are required of every construction project undertaken in EZs that does not require and maintain effective 24 hour security of its premises. Additional or expanded facilities to prove government services such as fire protection, public safety, health service, and recreational opportunities will be created on or adjacent to existing government-owned facilities without regard to level of government holding title or types of services they render except to avoid obvious incompatabilities in adjacent land uses and joint occupancies.

7081. Assessments for new private sector investments in real property in Enterprise Zones shall be made under the following special program:

(a) In the first two years, no assessments of the real property shall be made;

(b) In the third and fourth years, assessments shall be at 20 percent of the actual equalized assessed valuation of the real property;

(c) In the fifth and sixth years, assessments shall be made at 40 percent of the actual equalized assessed valuation of the real property;

(d) In the seventh and eighth years, assessments shall be made at 60 percent of the actual equalized assessed valuation of the real property;

(e) In the ninth and tenth years, assessments shall be made at 80 percent of the actual equalized assessed valuation of the real property; and

(f) In all subsequent years, assessments shall be made at 100 percent of the actual equalized assessed valuation of the real property.

For purposes of this section, a year begins from the date of acquisition of the property in the Enterprise Zone until the sixth year which thereafter will be limited to four years with 2 years at 60 percent and 2 years at 80 percent, or the date the area is declared to be an authorized Enterprise Zone, whichever is later.

Section 2. The Controller shall report to the Legislature on the amount of the claims made by county auditors under Section 16113 of the Government Code for compensation for property tax revenues lost by reason of the exemption of property by Section 1 of this act. The Controller shall deduct from revenues lost the amounts of additional sales taxes, advalorem taxes, business taxes, and other new and increased revenues attributable to business entities in the

Enterprise Zones. The report shall be made on or before the first day of October next following the operative date of this act, in order that the Legislature may appropriate funds for the subventions required by Section 2229 of the Revenue and Taxation Code.

SECTION II

ENTERPRISE ZONES
A NEW
HERBICIDE
FOR URBAN BLIGHT

Presently, neither Enterprise Zones, Industrial Policies, the underemployed, unemployed nor the less desirable are resources for economic expansion in the United States. Various industries are producing well below their capabilities because they can't find better opportunities and the less desirable, the unemployed old, the minorities, the young, and the handicapped, are denied opportunities by preconceptions of employers. Social Engineering Technology indicates, however, the the methods and experience now exist for using the underemployed and less desirable with faltering technologically key industries to produce economic opportunities. The name given to the concept, *"supply-side economics,"* that government should concentrate on stimulating business and improving productivity instead of stimulating consumer buying power.

According to Laffer, *as tax rates rise from zero, tax revenues increase until they reach an optimum point. Beyond that point, the rates are so high and so oppressive that they discourage work and encourage tax avoidance. As a result, tax revenues begin to dwindle, therefore the need for a tax reduction.*

If a tax reduction will stimulate economic activity and increase federal revenues, we believe, these new revenues can be used to expand and diversify the United States economy, thus strengthening the United States industrial base and not merely enlarging the workforce.

THE RECENT PAST

The remainder of this paper will speak to concepts which will transform a weak faltering industrial economy into a strong productive industrial economy.

When politicians and experts of all persuasions look at the country's urban centers, they see the same grim facts. Cities have been losing industry and populations, and the people who leave tend to be more skilled and affluent than those who remain. The result is high unemployment, a shrinking tax base, and a growing demand for social services.

Past government programs have been job training, public employment, tax credits for hiring disadvantaged workers, urban renewal, and etc. have met with little success. A relatively new proposal, attributed to Sir Geoffrey Howe (now Britain's Chancellor of the exchequer), takes a different approach. It seeks to revitalize the inner city by offering significant tax and regulatory relief to businesses that originate in, or move to, urban areas having high unemployment or widespread poverty. A trimmed down version of this proposal, Urban Jobs and Enterprise Zone Act (H.R. 7240), was introduced in the House on May 1, 1980, by Representative Jack Kemp (Republican, New York). It would offer tax incentives but not regulatory relief to qualifying businesses located in urban "enterprise zones."

The Kemp proposal would allow the Secretary of Commerce to designate an "enterprise zone" an area with a population of 4,000 or more (except for Indian reservation), and would have required satisfaction of the following conditions: (1) an unemployment rate for the recent twenty-four months of at least twice the national average and thirty (30%) percent of the area's families living below the poverty level, (2) an unemployment rate for that period of at least three times the national average, or (3) at least fifty (50%) percent of resident families living below the poverty level. It must also agree to make a permanent reduction in property tax rates of at least twenty (20%) percent within four years. Enterprise zone status would last for a minimum of ten years but could be revoked if the locality failed to follow through on the property tax reduction.

For a business in an enterprise zone to qualify for the special tax incentives, at least fifty (50%) percent of its workers must do substantially all their work in the zone and fifty (50%) percent of such "qualified employees" (that is, 25 percent of the firm's work force) must reside in the zone.

The Kemp bill's list of incentives would produce major tax relief, estimated by the bill's proponents at approximately $1.4 billion, for firms that met the eligibility criteria:

- Tax rate reductions would provide the bulk of the relief. The social security tax rate for qualified employees and and employers would be cut in half for adult workers and by 90 percent for those under twenty-one years old (estimated tax relief, $1.1 billion). Also, the tax rate that corporations pay on capital gains would be cut from 28 percent to 15 percent for three types of property:

(1) office and factory equipment used primarily in the active conduct of a business located in the enterprise zone;

(2) land and structures located in the zone; and

(3) a financial interest in a corporation, partership, or other entity that was a "qualified business in the most recent taxable year (estimated relief, $75 million).

Finally, the corporate tax rate schedule, which now ranges from 17 percent on income over $100,000, would be lowered to a range for those income levels of 14 to 39 percent (estimated relief, $131 million).

- In addition, the bill would authorize certain accounting changes for qualified business, in order to reduce the complexity and cost of business accounting and to strengthen the financial position of new firms during their early years. A simplified form of accelerated depreciation, three-year, straight-line, would be available for any property put in service in a zone, up to a maximum value of $500,000 (estimated relief, $53 million). Qualified businesses would also be allowed to carry net operating losses forward for ten years instead of only five, and businesses whose gross annual receipts have never exceeded $1.5 million would be given the option of using the cash basis for computing income (without any requirement to take inventories into account).

- The bill also provides that the Foreign Trade Zone Board should expedite applications from enterprise zones for "foreign trade zone" status, taking into account both their current and future economic development. Duty is not owed on goods that enter a foreign trade zone until they leave the zone, or on goods that are re-exported before leaving the zone. But, perhaps the greatest job stimulus from foreign trade zone status is the fact that no duty is owed on the value added to goods reprocessed within a zone, a provision that gives import companies a strong incentive to build job-creating assembly and reprocessing plants there.

At a theoretical level, the enterprise zones proposal must be viewed against the longstanding controversy over whether it is more efficient for the government to expand employment opportunities by moving people to jobs or jobs to people. Most government efforts to date have followed the former approach, giving people education, job training, or transportation to help

> them move up job ladders or across boundaries into long-term employment. The enterprise zones plan follows the other course, enticing existing or incipient enterprises to locate in areas of high unemployment.
>
> Critics of the plan are skeptical that business tax breaks can reverse what appears to be an inexorable trend of jobs toward suburban, exurban, and rural settings. The flight of jobs and skilled workers from urban core areas, they claim, is a complex long-range trend, resulting from a confluence of factors including the changing composition of national output, improved transportation and communication facilities, the attracttiveness of the lower wages or nonunionized labor available outside the cities, and the general unattractiveness of business conditions in the inner city. Proponents of H.R. 7240 seek to stimulate new business inside the zones rather than reverse past job flight and hope to make the tax relief substantial enough to do the job.

One must question the assumption that most of the businesses locating in the zones would be new ventures. To the extent that relocations became the main vehicle for job creation within the zones, the increased job opportunities thereby created inside the zones would have to be offset against the reduced job opportunities that would occur in the (often adjacent) areas from which the businesses had moved. In other words, to some extent, the scheme would simply shift unemployment across rather artifical borders. Indeed, there would be opportunities for a considerable amounts of "gaming" as small businesses, whose low overhead made a move easy, or which were ready to relocate anyway, picked up and moved perhaps only a few blocks into the most convenient enterprise zone. In such cases the tax incentives, "financed" by the general taxpayer, will have done little to help the unemployment problem nationwide.

Futhermore, while it is true that small firms create more new jobs than large firms, they also fail more often. If it is primarily small firms that would utilize these tax advantages, their attrition rate must be taken into account in predicting the ultimate job impact of the enterprise zone package.

Perhaps the most questionable promise held forth by the proposal, implicit, if not expressed, is substantial reduction of minority unemployment. Renewed prosperity for the nation's cities tends to be equated with higher income for the cities' current inhabitants. The scheme might have that result. However, if in fact the new businesses simply brought with them new employees (or, more likely, old employees relocated from the suburbs), it would be the cities, not their present inhabitants, that would have been "saved." This might itself be a desirable goal, but it must not be confused with the goal of minority employment. Some movement of professional and skilled white workers back into the cities has already been noted in some sections of the country, aided, in cities such as Chicago and Washington, by mortgage loan subsidies and "homestead" laws that are viewed by some minority groups as efforts to squeeze them out of desirable inner city locations. The enterprise zone proposal might be no more than another step in this direction, moving the human component of the inner city to the near suburbs.

While we suspect the conservative appeal of the legislation, that is, the notion that it is not a program to pile inner city residents into more dead-end public jobs, but instead will "harness the energy" of the private sector. It should be noted, contrary to the conservative dogma, that those private sector jobs will not exist without public subsidy, which in a real sense, are public jobs. Thus, subsidization of inefficient private businesses simply becomes another form of *"pork barrel politics," and perhaps the most dangerous, since, as in the cases of Lockheed and Chrysler ripoff, it does not provoke unified opposition from those quarters generally opposed to government intervention.* A principal route in which employment by subsidized private firms differs from outright welfare is that the money probably goes to the less needy. Unless, of course, hiring conditions are imposed, an adjustment that would be likely to occur in the case of the enterprise zone proposal.

As a demonstration project the proposal has some merit, especially if it included the easing of those regulatory and economic constraints on the free market whose substantial distorting effect is not generally appreciated, for example, environmental controls and the minimum wage. However, the regulatory control of the minimum wage would only be applicable when the employee had some stake in the venture. Such regulatory "easements" are part of the proposal being studied in Great Britain, but they were eliminated from Kemps' bill in order to make it less controversial and to keep it within the jurisdiction of a single House committee. Because of that compromise, the bill in its present form has demonstrated little more than a lack of understanding for the complexities of solving the problems of under and unemployment in the inner cities.

While H.R. 7240 has good potential, in terms of direction, it is presently a familiar example of regulatory fine tuning, that is, the use of new governmental incentives or constraints to offset the undesirable effects of governmental incentives or constraints already in place. Some of the policies responsible for the decline of the cities are not obsure or difficult to identify: tax structure in large metropolitan cities as opposed to suburban tax havens, that is, cities around Los Angeles like the City of Industry, City of Commerce, Vernon, and etc. Transportation systems are probably neutral in affecting urban blight versus suburban prosperity. For example, the upper east side of New York has not become blighted, nor have the inner cities of Europe become the haven for the unemployeed. Urban blight seems to continue because those persons who find themselves in this particular predicament are unable to exercise generally accepted responsibility for themselves.

WHAT IS REQUIRED TO TRANSFORM THESE PROBLEMS INTO PRODUCTIVE RESOURCES ARE:

- Industrial financing banks to provide capital to high-risk ventures in advanced-technology, that is, incremental increase in general fund revenue generated by the Laffer tax reduction in personal and corporate tax rates, which would absorb risks and reduce the costs of capital to technologically key industries, making the investment tax credit "*refundable*" or "*payable in cash to money-losing companies with no income tax liability, and helping workers shift from shrinking industries to growing industries.*" The present "*Trade Adjustment*" program of assistance to workers displaced by imports should be broadened to help workers in all industries experiencing structural change with emphasis on vocational counseling and retraining.

- Catalyst for technical assistance and procedural guidance that can be provided by involved, accomplished professionals with the capacity for long-range, strategic analysis of industrial issues.

- Crucibles in the form of new intermediate institutions that can integrate the presently separate roles of government, to provide basic support to individuals and to stimulate economic well-being for society through the process of disinvestment, or the freeing of resources tied up in relatively low productivity activities which are essential for economic growth.

Earl F. Cheit, Dean of UC Berkeley School of Business, points out that a policy of support for non-competitive industry is, of course, expensive, soon becomes self-defeating, and at best is a short-term measure until a longer term strategy can be devised. But devising that long-term strategy is not easy. Partly this is because of the differences between those who want to protect local manufacturers and those who want to let the market determine its own course; but even more important is the considerable disagreement about whether the competitive trouble is a temporary or permanent condition.

United States Policymakers have been diffident about using the phrase "*industrial policy,*" sometimes referring to it as "*lemon socialism,*" although they have supported the practice of subsidizing firms in competitive trouble. American firms and industries pressed by foreign competition are being supported under programs with titles chosen to convey justification for the practice, Chrysler's emergency loan guarantee board (which sounds self-liquidating); the steel industry's trigger price mechanism (which implies a technical solution to the problem).

Since the discovery by Japan, Korea, Taiwan, Hong Kong, Singapore, Brazil and other newly industrialized countries realized that if you build a better mousetrap the world will beat a path to your door, the Western countries have been trying to soften the effects on their industries of this new competition. The Western European approach is generally called *"industrial policy,"* the essence of which is that if the mousetrap you are building is not competitive, your government's department of industry will beat a path to your door and support you.

Two background lessons are sobering. The first is that the pace of industrialization is accelerating. In fields as varied as electronics, shipbuilding, textiles, steel, and automobiles, the newly industrialized countries have in the last few years produced manufacturing capacity that threatens, not just the accustomed market share of the Western industrialized countries, but, it would appear, the very survival of their industries. Now that the process of acquiring manufacturing capacity is no longer measured in decades or generations, it is possible for an advanced developing country within a few years to industrialize a sector of its economy and enter its output in competition in the world market. As a result, international patterns of production and trade are changing rapidly.

These changes are likely to continue if the second background lesson that history, is moving against the Western industrialized countries. Because new countries are acquiring skills, the quality of their capital is often better, and they grow faster, their advancement leaves the older countries with a comparative advantage only in very high technology where, unfortunately, room for growth and employment is limited.

The consensus seems to be that if a nation wants to remain industrial it must:

- help phase out its non-competitive industry;
- encourage those aspects of its remaining industry that can be competitive; and
- accelerate movement into new fields of comparative advantage.

Businessmen are eager to discuss the conditions that foster competitiveness, flexibility, mobility, investment, increased productivity, and innovation. They, on the other hand, are unwilling to accept industrial decline as inevitable. None seem enthusiastic about the seductive proposition that a declining industrial nation could retain its vigor if it bacame wholly a producer of services. The managing director of Swedish Steel strikes a responsive cord when he declares: *"In advanced industrial countries, steel is crucial. You can lose it and live without it, but it is like losing your teeth. You can live without them, but you can't bite so strong anymore."*

Considerable applied social design and detailed program planning are required before the ideas asserted above could be substantiated through demonstration projects. Social Engineering Technology, believes that there is sufficient know-how available to begin to plan for such demonstrations. In order to make a somewhat abstract principle concrete, a rough sketch (delineated hereinafter) describes how a program designed for combining high-risk ventures with the underemployed and the less desirable might function to promote economic expansion. Don't look at the sketch to see what's wrong, rather, think of it as a crude verbal model to illustrate the principles involved. Following the sketch below some of the rationale for the program's design is explained. The basic features are drawn from the professional experience of Social Engineering Technology. Finally, a progression is outlined for proceeding from refinement of these initial ideas to policy studies with analysis of the distribution of costs and benefits, then to program planning the justification. At this point additional authorization would be necessary for organization and management of demonstrations which could be evaluated to produce detailed guidelines for administration of the implementation of this type of ecomomic program.

Descriptive Sketch # 1

A surplus Department of Defense facility on the fringe of a metropolitan area (*or any large vacant warehouse or building in the inner-city*) is designated to house the new *Economic Development Project* for unemployeed and less desirable employees are sponsored by a consortium of state and federal agencies, perferably sponsored by a states' *Department of Economic Development*. Four groups of between 16-25 households are selected for the first four-month session and designated as teams. These teams are formed by self-selected "organizers" during a series of weekend workshops held earlier at community colleges and high schools. Many different kinds of underemployed and unemployed persons attend these *"economic planning workshops."* Some participants will be referred to these weekend workshops by public and private business and employment counselors, but most are attracted by short radio announcements and a newspaper story on the new *Economic Development Project*.

The weekend workshop will invite the participants to explore and identify non-competitive industries, industries that can be competitive and how to move into fields of comparative advantage which will assist to identify new ventures that may serve such special needs as export-oriented products, energy conserving methods, child care services, intermediate technology, and so forth and create fresh opportunities (for achievement) for those involved in the *"Enterprise Zone Economic Development Project,"(EZEDP).* The sessions begin on a Friday evening and end Sunday noon. Attendance will be typically 150 to 300 participants plus a staff of ten. In the workshop there are several lectures, two short exercises on using group creative powers, and a long simulation exercise that involves workshop participants in moving from initial ideas to successful operations over a three-year period.

We would not expect all participants of the program to undergo this type of training. Many of the already established firms and partnerships would not need to establish their basic goals and projections for the first three years. At this juncture we are only referring to those firms and participants who would be involved in start-up activities.

Participants in these exploratory workshops are encouraged to try to form balanced teams. As the membership stabilizes there is pressure to come up with an intergrating idea for the team, usually an interest area such as energy-saving devices or low-technology food storage methods, to serve as a focus. Experienced entrepreneurs, scientist-engineers, and marketing specialists from the community serve as workshop advisors. The objectives of the long-term *"Enterprise Zone Economic Development Project"* to catalyze the human resources of the underemployed and less desirable over a three month period are outlined. The criteria that would be used to select teams for support of their employment and enterprise development activities in the *EZEDP* are defined. The dual purpose of improving participants careering skills as well as seeding viable business ventures are made clear.

FACTORS FOR ECONOMIC DEVELOPMENT

The unemployed, underemployed, and the less desirable individuals come with their whole households to the training facility to begin their development project. The four teams are assigned facilities and then meet separately to figure out how to allocate their space. A contract feeding firm provides meals for the first days and after that each team is to make its own arrangements.

Each team involves some governance mechanism while organizing itself and preparing its application for *"Economic Support."*

Without going into detail, the following account describes what might have occurred during the training program. The teams' first substantive task was to organize a planning activity. Each team was assigned an organizational development specialist, a communications facilitator, and an administrative liaison to direct budgeting and disbursements as well as to oversee documentation of team activities. The teams took markedly different approaches to dividing responsibilities and assignments among their respective members.

At the outset, small budgets provided for outside expertise which were not being used. Therefore, the teams were asked to decide on the kinds of technical assistance that would benefit them.

Several informal training activities were evidenced by each of the teams by the end of the second week. An educational program for youth and a child care center were established to serve all the teams during the third week. Initially the teams picked three to eight objectives to explore in parallel. All involved export-oriented products such as simple power generators, easily-operated credit systems, and low cost transport and unloading devices using intermediate technology, which had been emphasized in one of the weekend workshops.

At the end of the fourth week the projects' administrative staff called a meeting for the three teams and invited ten experts from different disciplines to describe features of successful product development efforts and the kinds of information that it was most important to collect and organize. Two career guidance specialists worked with small groups from each of the four teams to assist individuals in identifying critical career competences and planning new roles with which to experiment. By the end of the first week one of the teams had decided to pursue an investigation of two related products which would include prototyping and detailed market planning. Another team had decided that they would build several models of fairly simple devices they had developed; some members would begin direct marketing activities while others were working out production arrangements.

(At this point the scenario for each of the team's activities could be traced describing several setbacks and breakthroughs.)

In the middle of the third month project evaluations were undertaken to determine which teams would (1) receive additional support to continue their development efforts, (2) be ready to become an independent entity having an initial product(s) and a well enough established forecast of expected results to justify investment, and (3) have made some progress but not achieved sufficient results to warrant additional support. Evaluation of *Economic Development* teams were made by a group of entrepreneurs, investment bankers, technical specialists, and marketing experts with the participation of the organization development specialist assigned to each team. While other recommendation could be considered, the evaluators were asked to force choices into these three categories, to continue, to advance, or to terminate.

In the instance being sketched here, the evaluators recommended that one of the teams be given support for an additional two months. They found another of the team's work ready to become independent. The other two teams were having difficulty making progress and the evaluators felt they had targeted on product concepts of limited potential. One idea in particular the evaluators felt should be documented so that it could be reconsidered by another team in a couple of years. They recommended this team be given three weeks to do this work.

The evaluators discussed their recommendation with the two unsuccessful teams. Based on the participant's experiences with this project, references for employment were made by the *Economic Development* staff and evaluators. Members of the two terminated teams began a two-week transition program directed at (1) placing them in positions in the community, (2) connecting them with individuals who had come to provide assistance during their development project and who might have need of their skills, and (3) making plans to organize their return to the community. Those who could not find immediate employment were qualified for unemployment assistance and other benefits. A few individuals from each team worked out transfers to the team being offered support for an additional two months.

The team selected for ongoing support first made a plan, with counsel from the evaluators, for the two-month extension period. The plan included identification of additional expertise required and the type of product refinement and distribution planning that would be necessary. Team members sought help from a list of consultants qualified by the Economic Development Administrators, looked for additional members on a roster of underemployed professionals (*which was maintained by the inter-agency administrative group*), and asked for the transfer to their team of five households from the disbanding teams. This development team then undertook their two-month refinement activities which culminated in a positive evaluation and transition to an independent enterprise.

The team judged ready to become an independent entity began their next phase by meeting with a panel of venture investment specialists. The purpose was to discuss which financing strategy would best fit their product, market, and potential. The strategies considered included (1) becoming a subsidiary of a major corporation in exchange for sufficient investment capital to proceed with marketing and initiating production; (2) becoming a quasi-public entity in cooperation with a local economic development district, with negotiated employment contracts including bonuses for team members; and (3) raising sufficient working capital for an independent private venture from a combination of loans and private stock placements. In each of these instances a fair return was included for the supportive efforts of the intergovernmental agency directing the program. After two days of discussion and two days of independent investigation and deliberation, the team decided that becoming a subsidiary of a major corporation was the preferred route. The normal procedure was then followed for providing notice to the general public and corporate interests. Prospective corporate investors were identified from those with obvious related interest and those who had filed past interest in this product area, and they were notified directly. These solicitation procedures yielded a list of eight corporations who were interested and qualified for competitive determination of the most favorable investment package. One of the requirements for a successful corporate investor was relocation of the new enterprise in one of five areas designated for this type of economic development assistance.

Descriptive Sketch # 2

The XYZ Co., a giant agricultural processing firm, is likely to be the first company to take advantage of a new form of tax-emempt bonds in *STROMCENTER* designed to lure new industry to the state into ubran *Enterprise Zones*. The suburban firm with $2.8 billion in yearly sales is seeking $5 million to pay for the development of an inner-city feed mill. The money would be raised with so-called *"Enterprise Zone Industrial Development Bonds"* that were authorized last year by the state Legislature. Local jurisdictions were permitted to issue the tax-exempt bonds starting this year.

While the probable financing scheme for XYZ Co.,involves a relatively small sum, it could represent the start of a major industrial financing trend within many states.

The use of industrial development bonds has grown rapidly throughout the country in recent years as states have competed aggressively with each other to attract new industry. The congressional Budget Office estimated that sales of these tax-exempt issues had soared to $7 billion by 1979. And some consumer advocates, led by Ralph Nader, have lashed out at the financing technique as a form of corporate "extortion" that cuts federal tax revenues without attracting new business.

Until last year, *STORMCENTER* was among a handful of states that had not yet approved issuance of the tax-free bonds to assist corporations. While the bonds are issued by cities or counties, the proceeds pass through directly to the corporations for construction of new plants or expansion of existing ones. Because interest payments received by those who invest in the bonds is tax-exempt, the bonds pay a lower rate than the standard taxable corporate issues, enabling corporations such as XYZ to save substantial sums in interest payments. The county is not obligated to pay off the bonds if the firm defaults.

The Small County Board of Supervisors last week approved a resolution that would designate the board as an industrial development authority with power to issue the special tax-exempt bonds. The issue could go to market early this summer.

Specifically, XYZ is seeking $5 million to build a feed mill on 46th street in West Blacktown. The firm has an agreement in principle to buy the property from Dayton-based Uncle Tom Corp. It also has agreed to buy two additional union mills in Portland, Ore. and Spokane, Wash. The mills make up Uncle Tom's Centennial Mills division. None of the industrial development bond money would be used for acquisition purposes, only for subsequent expansion. The plant currently has the capacity to produce 900,000 pounds of feed each day and its sales total about $40 million yearly. XYZ hopes to increase the capacity to 1.9 million pounds of feed and boost sales to $90 million within a year.

While the expansion would directly add only 22 jobs to the 80 already there, the firm argues that increased business would provide valuable spinoff benefits throughout the local economy. If the county does not float an industrial development bond issue on behalf of XYZ, the company intimated that it may cancel its purchase.

XYZ, worried by escalating interest rates, has been particularly aggressive in the past few years in financing much of its growth with tax-exempt *Enterprise Zone Industrial Revenue Bonds*. Smith, an assistant treasurer of the firm said, "this year, I would hope to do at least 25% of our capital expenditures with *Enterprise Zone Industrial Revenue Bond Financing. I have been asked by our management to keep them informed with respect to the availability of Enterprise Zone Industrial Revenue Bonds with major capital expenditure the company is involved in."*

Within the last six months, XYZ has become involved in 18 *Industrial Revenue Bond* issues worth a total of $40 million in 10 states. Within the next six months, the firm expects to become involved in eight more bond issues worth another $40 million. Smith, who is also chairman of the Washington *Enterprise Zone Industrial Development Authority*, said use of the tax-exempt bonds saved the firm $1.2 million in interest payments last year.

Descriptive Sketch # 3

(We believe this has Enterprise Zones Stamped in stone)

California's public and private pension funds should invest more of their $60-billion worth of assets in local residential mortgages, small but fast-growing firms based in the state, and alternative energy efforts, a special report commissioned by the governor recommends. The report, prepared by the governor's Public Investment Task Force and scheduled for release March 24, 1981, is expected to accelerate debate on how to manage about $22 billion in two giant, state-run pension plans.

The concept of using pension fund money to achieve social goals has gained wide attention in recent years, creating a stir among traditional money managers who regard their only task as achieving the highest possible investment return. *Gov. Edmund G. Brown Jr. has been a major proponent of so-called "social investment."* When he established the pension task force last July, Brown argued that public and private pensions based in the state *"can be a key to revitalizing California's economy."* The notion of using pension assets to generate jobs within a specific geographic area has achieved acceptance among some labor unions. Southern California construction unions have invested $150 million in construction projects which will employ their members.

State and federal laws restrict pension funds to "prudent" investments in order to safeguard benefits for present and future retirees. But the official definition of prudence has changed in the wake of inflation that devastates the returns of funds that stuck to what once were considered safe investments, fixed-return bonds and stocks of big, bluechip companies. Real estate and stocks of smaller firms, once regarded as more risky investments, have performed better. Trustees of the pension plans, however, must approve any policy changes, Some proposals, such as one that requires money from the state's general fund to insure against excessive losses on loans to small firms and medium-sized firms, are bound to be controversial and may face resistance in the Legislature.

The report suggest broadening the concept of social injury to include such items as "environmental policies which cause pollution, reliance on non-renewable or nuclear energy resources, reliance on the growth of militarism for the sale of products or services." Because California has been a leader in evaluating the role of pension funds in achieving social goals, any policy changes here are expected to be watched closely by other states. Northeastern states, for example, are debating the merits of using state pension money to help revitalize their older industrial economies. The report focuses most heavily on how public and private pension funds within the state can stimulate construction of "affordable housing" in California. The task force recommends creation of a California Mortgage Assn. (to be known as "Cali Mae") that would assemble mortgages for resale to public and to institutional investors such as pension funds. By providing insurance for the mortgage loans interest rates could be lowered.

Proposed is a "homeownership co-investment' program in which pension funds pay a portion of a home's purchase price in exchange for a proportionate share of the profits when the home is sold. Many small and medium-size firms in the state may benefit from the proposal who are now suffering from "capital starvation" in their attempts to finance rapid growth. Under legislative changes proposed by the task force, the state-run pensions could invest up to 40% of their assets in stock. The suggested legislative changes also would remove the $100 million asset restriction as well as the dividend requirement; permitting some investment in non-publicly traded small businesses or limited partnerships. Proposed legislation would also authorize the state pension plans to invest up to 1% of their assets in securities issued by venture capital firms with major interests in California.

The state would commit $5 million from its general fund to an insurance reserve that would cover any excessive loan losses by small and medium-sized firms. "This would protect the pension funds against default and would enable packages of such loans to obtain favorable securities ratings that would make them attractive investments."

There are obviously lots of other considerations that could be incorporated into these types of programs. The purpose of these sketchs were to indicate the broad features, that could benefit everyone, (including those who were less than successful), that there is little displacement of otherwise productive effort or unfair competition with existing businesses, and that the transfer payments proffered by present day employment programs could be redirected in a program that could produce positive experiences and greater feelings of self worth for participants.

Program Rational

The ideas in this program sketch are based on observations and insights from different perspectives. Some of these perspectives with a few concepts which characterize efforts in each are described below.

> *Technology Transfer* (or Utilization) is concerned with improving the application of inventions and methods from one field to another.

- Ideas require people to move to bring them to new situations and applications; ideas don't take root when sent on paper only.
- Those that have the problem must be looking for better ways and preferably have set a price on what improvements are worth.

- Exceptional efforts are prompted by relatively short-term objectives that are clearly defined and widely shared.

Personal Growth and Organizational Development involve attempts to find ways to assist individuals to become more self-realized and organizations to be more appropriately structured.

- Give individuals experience with accomplishments to counter low self-esteem.
- Increase the number of symbolic rewards for individuals and group achievement.
- Provide situations for individuals to strategize about personal career objectives.
- Create task-specific, time-limited work groups with frequent possibility for rearrangement.

The common thread in the work of the diverse specialities cited above is the general principle that our society's ability to design appropriate institutional arrangements and social organizations lags seriously behind our capacity for developing technological improvements. Social Engineering Technology was formed to plan and execute social designs that will improve the performance of institutions and to formulate appropriate social arrangements for accomplishing the mutual objectives of individuals and the society.

As important as looking at the sources of concepts for this (paper) program idea is the ways in which the program fits with the problems and opportunities related to the various interests involved. The paragraphs below relate the features of this idea to use the underemployed and less desirable in an economic development effort.

The Less Desirable

- An opportunity for involvement and positive experiences with work and enterprise development.

The Underemployed

- A chance to get recognition for unused ideas and engage surplus competence.

- Introduction of a contextual shift or altered perspective can stimulate search for, and acceptance of, alternatives.
- Innovations occur at different levels of comprehensiveness and must be communicated in parallel channels to find receptivity.

Venture Capital and Entrepreneurship Studies look at the indicators of potential success for particular situations and how to structure the mix of investments to achieve objectives.

- The highest rate of success in new ventures is for those started by people who were out of work.
- A stable source of capital is the most vital ingredient for a new venture.
- Building a management team increases the likelihood of success.
- Involvement of key innovators and business idea gatekeepers assures effort will be directed in productive channels.

Welfare Economics and Distribution of Wealth inquire into the direct and collateral effects of society's attention or inattention to social problems.

- Distribution of capital interests as well as transfer payments.
- Potential for direct capture of benefits from support programs to sustain program activities.
- Provide incentives for transition from subsidy to active involvement in world of work.
- Negative influence of *"acarpous"* social relationships and community context.

Labor Productivity and Quality of Working Life are based on continuing efforts to more intelligently structure the intrinsic activities of work and its meanings to participants and others.

- Making the work itself more interesting is the most significant motivator.
- Attention and response to workgroup increases achievement.
- An upward spiral in an organization's activities and diffusing responsibility (personnel multiplexing).

The Unemployed

- The opportunity to receive a fair wage for a fair days work with the opportunity and potential for upward mobility into either a better job or their own enterprise by helping workers in all industries experiencing structural change.

The Society

- Increased efficiency in firms,stimulate the economy, create jobs and reduce chronic unemployment.

The Taxpayer-Citizen

- Reduce taxes, produce increased benefits from transfer payments, and set up potential for capturing monies for successful efforts.

The Industrial Community

- Innovative concepts and methods assisting businesses, long range strategic analysis, a process of disinvestment, or the freeing of resources tied up in realtively low productivity activities which is essential for economic growth.

The Manpower Development - Unemployment Insurance Administration

- Increased visibility for positive contributions to society.

The concepts for this program idea also have grown out of Social Engineering Technology's own project experience. The ways in which Social Engineering Technology's experience has contributed to the program structure and gives indications for expected success for Business and Industry which will also provide opportunities for the unemployed, underemployed, and less desirable as a resource for economic expansion is described below.

Alternative Pursuits for America's Third Century

Social Investment Plan for California

Social Investment Plan for The United States

Future Business Opportunities in Urban Areas

Social Design of Industrial Support Communities

Product and Service Development

Shipshaping: Environmental Management for Performance Improvement

Careering Services

Planning for Social and Economic Growth and Development

Reshaping Industrial Policies

Bailouts for Failing Businesses

Structural Change in Industries

Guaranteed revitalization of Businesses and Industries in Exchange for subsidies

Identification of Industrial Losers

Revitalization of Basic Industries

Allocated Credit to Favored Growth Industries

Picking Winners

Risk Absorption to Stimulate Economic Growth

A Developed Capacity For Long-Range Strategic Analysis for Industrial Issues

Action Steps

There is no established practice for experimentally structuring and carrying out demonstrations for multiple-purpose economic development programs prior to legislative mandate and administrative guidelines. A number of experimental programs (*such as, MARS in California, "Male Accepting the Role of Spouse," Income Maintenance in New Jersey, and Vouchers for Educational Choice in Arkansas)* have been attempted which involved policy alternatives within a single functional agency. While an action-research approach is often advocated for developing economic program initiatives, there is little in the way of precedence for anything but narrowly defined programs. This means that the approach to introducing a new multi-purpose program model will require virtually the same attention and effort as will the design of the program itself.

The following is a brief task outline of a program development activity.

Task 1 Hold an extended workshop with selected program description, procedural guide, and operating scenario for the new program.

Task 2 Work with key program officials, policy analyst, and budgeting specialists in three states and in appropriate federal agencies to develop supportable budget for program start-up and operating cost and a clear prognosis for the value of program experiences and benefits.

Task 3 Design and conduct three demonstration programs for from 10 to 12 projects each overlapping. Select states and sites competetively based on a state's willingness to give attention and provide support for demonstrations and a commitment to following up on successful results Arrange for independent evaluation.

SECTION III

SUPPORT COMMUNITIES FOR INDUSTRIAL DEVELOPMENT

NEW PROFIT OPPORTUNITIES

- involve acquisition and conversion of basic resources
- necessitate creation of complete support community because of remote location
- require 'instant,' large-scale operations without any in-between stages of development
- require diverse and highly skilled workforce
- transcend industry precedents, demanding attention of top management
- occur in a context of continuing social and economic change

MANAGEMENT OF SUPPORT COMMUNITY DEVELOPMENT CAN:

- control costs of construction for operating facilities
- establish an ethic of high productivity in a motivated workforce
- attract significant investment for collateral industrial and institutional activities to diversify community life
- create economic stability with high potential for continued growth
- reduce fears of negative social and environmental impacts
- convert "costs of doing business" into additional profit opportunities
- provide governmental entities with assurance of project viability and adequate consideration of contingencies

ORGANIZING SUPPORT COMMUNITIES FOR LARGE-SCALE INDUSTRIAL DEVELOPMENTS REQUIRES:

- careful design of personnel recruitment mechanisms
- creative programming of events and facilities to mark the inception and subsequent progression in the community's development
- insightful attention to shape the patterns of community life which will be adopted by construction workers
- provision of a range of housing choices to reflect lifestyle preferences
- skilled organization of effective delivery systems for services based on attraction of complementary personnel for employment in the service sector
- purposive activities to serve as sources of identification as well as investment opportunities for employees and community residents

It doesn't make sense to build a 1980's production facility with a 1950's support community. No one intentionally builds a bad company town. More often modern support communities are planned as open towns with amenities designed to induce high productivity. But, many have not achieved their goals. Lack of adequate attention to support community development results in high costs, lower productivity, greater vulnerability to change, and no opportunity to earn a return on the investment in support facilities

A good support community is much more than a place furnished with a complement of buildings and the expected array of services. It is a setting that generates meanings for individual action along with opportunities to fuel ambition. Seldom is anyone responsible for making sure that these more important qualities of a support community are given proper consideration in the design phase. In the past support communities have been designed as utilitarian encampments, modeled after suburban estates, but scaled down for the "workers," and up for the supervisors. The community was designed using either "the best judgment around" or left, laissez-faire, as "somebody else's business." Neither of these extremes produces satisfactory results.

To meet the requirement for higher performance support communities SET has put together what might be thought of as an "enlightened-self-interest" approach. By our definition, a support community results from a self-conscious effort by the sponsors of a major industrial complex to produce a community that will both (1) generate benefits for the major industrial activities and (2) support the aspiration and needs of the residents they expect to attract to the community. Overlooking the reinforcing relationships between these two objectives has led to inappropriate concentration of corporate investment in operating facilities rather than community technology.

Employees who feel a sense of challenge in their work, involvement in the opportunities the community generates, as well as choices in what they do and how they do it, are likely to be effective and dedicated employees. These benefits are a rare and important commodity today. Also, a vibrant community with many different avenues for personal endeavor and financial investment can greatly improve the range of potential employee-residents who might be attracted to the community.

A community with strong supplemental interests could do much to break up the local inflationary spiral created by artificial labor scarcity in response to poor conditions, that is often experienced in support communities. Typically isolated construction jobs and industrial positions require high salaries to attract workers to semidesirable locations. Soon these high salaries are offset by rising costs of services and housing provided locally. Higher wages are then demanded to offset the increased cost of living or the high cost of travel for periodic escapes. In the absence of other purposes and attractive alternatives for residents' time and money, the interaction of the basic industrial and local service sectors acts to escalate costs. Therefore, a new approach is needed to interrupt this syndrome.

MAJOR NEW PROCESSING FACILITIES

Stockholders are looking closer at return on investment and are less enamored of expected future earnings. Management is looking for a more pragmatic approach. Lenders are skeptical. At the same time, other sources of capital are looking for greater security and higher returns. Governmental units are highly sensitive to the possibilities that they can be accused of not discharging their responsibilities if things go wrong and special responses are required.

Corporate management is increasingly required to show social responsibility in pursuing new business opportunities, as well as to produce stockholder profits. In its dealings with customers, employees, and the communities in which it has operations, business is expected to be a "good citizen" as well as an effective producer.

Nowhere is a new breed of industrial statesmen needed more than in the challenge of creating new processing facilities with their necessary support communities to acquire and convert basic resources. Industrial statesmen will learn to develop support communities that spur individuals to develop and exhibit new levels of professional and technical competence. Minimal communities fail to provide enough impetus for contractor and employee morale. Model communities, designed as "engines" for industrial productivity and human habitation, failed because they infantilized their residents by expecting and accommodating their inadequacies. A well-functioning support community won't be more finished or luxurious but will have more chances for every resident to be involved, get the job done, and make a difference.

A good common sense rule for executives responsible for the design of a new industrial complex: If you're not attracted to working and living there yourself, it's not going to work for "them" either.

If a project is to take advantage of latent opportunities and avoid "building in" situations that will later require either continuing attention or major revisions, it is important that conceptual design for the support community proceed in parallel with design of the industrial processing facilities.

All too frequently an industrial installation is designed to incorporate the latest technology and support community facilities are merely attached. Creating a high-performance support community is not something to simply add to the engineering of a major industrial facility. Support communities involve complex sociotechnical problems. Creating a desirable environment for corporate investment and personnel management requires the attention of specialists. The performance of the support community, with regard to productivity and return on investment, often spells the difference between operations that are successful and those that are marginal.

INTENTIONS AND INFORMATION

Support communities involve so much more than the normal engineering, financial, and personnel management decisions. We have found that a search for more data and information often supplants the exploration for clear insights and intentions. Establishing policies for a new support community cannot be based on empirical research. Formulation of the problem is inherently circular--everything is related to everything else.

Instead of a neat closed system, isolated support communities are a microcosm of the larger economy. Each action produces a chain of reactions. These reactions tend to establish a direction which triggers either a positive or negative syndrome. For example, an inadequate investment in community life at the inception of a project may significantly increase the investment required for the industrial facility because of low construction productivity. Often this further reduces investment available for community services and amenities. This, in turn, necessitates higher wages to attract workers. This action then reduces the return on investment in the industrial plant by raising operating costs.

On the other hand, the negative syndrome could be interrupted and a positive one initiated. A combination of investments in community amenities and in selective recruitment of construction workers during the early phases could lead to higher levels of stability and productivity. An incentive program could be structured to provide opportunities that would attract a highly motivated construction workforce with long-term interests in an area by encouraging collateral industrial activities to develop in the area and by creating interesting entrepreneurial roles in the service sector.

Far more policy tools are available to a project sponsor in a remote location which requires a support community than would be available for projects in a metropolitan area. The pricing of housing, food, transportation, and personal services can be used as policy instruments. They are not simply facts of the situation. Therefore, the potential reward for very skillful management in remote sites is much greater. Concomitantly, however, the risks of mismanagement are also much higher.

Ultimately, policy directives established by the sponsor of a major industrial complex in a remote site are based on the sponsor's unique conception of the project. Comparisons with other remote projects, classical "market-places," or the way things are generally done are of little value. This makes it important to prepare scenarios that depict community life over the evolution of the project. Policy options can be formulated and judged in the context of these scenarios. Simply applying a sponsor's existing policies to a process of budgeting community development as an extension of management's planning for operating facilities produces sterile community development programs. Most of the key program targets, such as the kinds of housing, health care, education, transport...to be provided, will follow abstract standards, be difficult and expensive to achieve, and be of questionable value if not counterproductive, in stimulating high commitment and productivity.

ISSUES, THREATS, AND OPPORTUNITIES

The sponsors of major industrial developments at isolated sites which require a support community for the workforce will encounter certain issues, threats, and opportunities that would not be management concerns if the installation were part of a larger metropolitan area. Some of these are obvious. Others only become apparent in the doing. We believe it is important to identify these situations for management consideration before they occur. Actions for dealing with these issues, threats, and opportunities should be prepared. Many situations will be specific to the context of a particular project. But there are some which are general concerns and common to the development of most remote support communities. These include:

ISSUES how to:

- assist a company town in rapidly becoming an autonomous place—facilitate the transfer of responsibility
- initiate wider latitude in management actions by project sponsor to help community to mature
- guard against over-commitment of financing to "general purpose" facilities to provide urban services
- control unwanted social activities, noxious land uses, and undesirable immigrating residents
- maintain impetus for continuing growth of coherent community while avoiding sprawl and diffuse incompleteness
- reduce vulnerability to negatively biased and highly critical commentary concerning quality of life in support community
- institute viable and reciprocal relationships with established state and local governments
- create a legitimate, noncoercive role for project sponsors in local affairs
- achieve an appropriate sharing of the community's planning, development, and operating costs among project sponsors; other private interests; and federal, state, and local governments.

THREATS how to:

- ameliorate irreversible degradation of the environment
- minimize lengthy construction delays and major cost overruns in building major facilities caused by excessive labor turnover, low worker productivity, and difficulty in attracting and retaining qualified technical and managerial personnel
- defuse protests, suits, and other opposition from outside interests or groups
- keep down greatly increased operating costs because of unsatisfactory work expectations and intense local inflation in cost of living
- deal effectively with excessive regulatory procedures, authorizations, and compliances
- reduce the chance of premature technological or economical obsolescence of major products from new processing operations
- prevent exploitive taxation by local jurisdictions of major facilities investments and earnings from operations
- guard against community stagnation and insularity leading to increased dependency on project sponsors that results in higher cost and lower productivity.

OPPORTUNITIES how to:

- obtain substantial return from sales of properties to collateral industries and other business activities
- achieve high yield on start-up investment (venture capital) in viable service businesses in support community
- earn significant appreciation on investment in infrastructure systems and public facilities
- capitalize on creation of special marketing activities to serve employees and residents
- benefit from exploitation of exhibition and recreational attractiveness of new operations in remote locale
- help establish new business to use special resources of the area and by-products of operations
- use development and attraction of specialized organizations with no particular locational preferences to diversify community.

IMPORTANT CONSIDERATIONS IN SUPPORT COMMUNITY PLANNING

There are a great many issues of possible significance in developing a support community. Most considerations in creating a new community will not become issues unless they are overlooked. Then, even relatively mundane and ordinary concerns become critical. Thus one of the most important facets of support community development is compulsive attention to detail.

General plans serve well in established areas where, because people have been living there for some time, there is at least some relatively satisfactory way for most things to get done. Since people live and function in existing towns, obviously nothing of critical importance can be missing. This is not necessarily the case in the creation of a new independent support community in a remote area.

Issues and Actions

Frequently, it is implied that for every issue, situation, or problem, there should be a corresponding response, initiative, or action. Following such a one-to-one correspondence between "what's wrong" and "what to do" would be an endless task in the development of a support community. Later, in practice, trying to implement lots of individual actions, tends to make intervention itself seem to be the main effect of management's concern.

A better approach, we believe, is to organize multipurpose interventions that respond to several concerns. Multipurpose projects are usually more integrated and meaningful. The best way to organize multipurpose actions to respond to a number of different issues and problems is to add uncommon features to conventional projects rather than create new projects. Particularly in the case of remote support communities it is important that responding to concerns and issues not involve completely new initiatives. Additional projects are not needed. It is better to modify necessary ones.

An analogy can illustrate a related point. The marginal cost of adding chocolate to milk to produce chocolate milk is relatively low. What results is a product that is more highly valued than the cost of adding the chocolate. Since chocolate was the big interest, a beverage could be made from processed or artificial milk that would be more nutritious and even lower in cost than plain milk. Thus, chocolate drink was developed. Similar thinking can be used to introduce responsive "ingredients" into community design elements to produce more satisfaction at lower cost.

One example may make this concept clearer. Sophisticated plumbing and wiring are very expensive, often unavailable, in remote areas. Therefore, in housing design, attention should be given to creating other amenities that will provide high levels of satisfaction and at the same time permit standards for electrical and plumbing features to be reduced to minimums--providing for upgrading later.

In the area of recreation services, the implication for the planning of support communities is to avoid concentration on a comprehensive set of purported "basic necessities." Instead, attention should be directed to identifying a few salient, highly attractive, and very compelling recreation activities to serve as key features of the community. Developing facilities and services around a few key themes will give the support community some significant satisfactions and thereby subordinate the multitude of utilitarian concerns which cannot be conclusively dealt with in early stages of development.

Instant Excellence Versus a Developmental Perspective

In planning support community facilities it is easy to begin specifying great sophistication and a high degree of finish for individual projects without recognizing the patterns of life they imply. The degree of refinement and completeness attempted in community development projects increases their cost. This usually reduces the number of projects that can be undertaken.

By contrast, a more developmental perspective suggests that many projects can be initiated with the various residents of the community being involved in the refinement and completion of projects, including those who may come three to five years later.

Following an "instant excellence" approach means that housing, food services, and local transport systems have to anticipate the needs and satisfactions that will be important to residents. Projects that attempt to achieve instant excellence in the end suggest a standard of quality that invites criticism and fault finding. On the other hand, a developmental approach permits each resident to invest some of himself in successive refinement of projects.

This in turn implies a role for each resident in selecting initiatives for continuing development. Thus, passive critics can be transformed into agents of improvement—obviously to be satisfied with what they themselves do. Finally, if the instant excellence approach is followed, then the experience of living with completed projects is one of ongoing deterioration. This is particularly true during early stages of rapid expansion when virtually no attention can be paid to maintenance and high levels of personnel turnover reduce personal responsibility.

Intrinsic Versus Extrinsic Rewards

The work itself is a big, perhaps the biggest, part of life in support communities. What goes on on the job and the organizational climate created is not simply of concern to the manufacturing and training activities, but pervades community life. This interrelationship is important to recognize in planning support communities. As several managers of remote support communities have noted, it is impossible to tell where problems start, either in the plant or in the town.

For some period management studies have shown the dominance of intrinsic versus extrinsic rewards in motivating workers. Intrinsic rewards are defined as benefits associated with the job itself. Intrinsic rewards include how the work is allocated, contributions for individuals are recognized, higher status is achieved, and opportunity to make additional improvements is gained, plus the latitude to explore what improvements might be initiated. Intrinsic rewards also include supplementary benefits that attend the job such as going to technical meetings, publishing studies about the field, working independently on innovations, earning a sabbatical, and so forth. Extrinsic rewards are defined as benefits received to compensate for work. These include financial remuneration and items in the so-called benefits package—vacations, health care, life insurance, and pension plans, plus various kinds of bonuses.

The best results are always achieved with some balance of intrinsic and extrinsic rewards. Experience has shown that intrinsic rewards produce greater results. However, in the case of remote industrial sites, the dominance of deterministic management practices seems to have eclipsed findings from more stable industrial settings. Thus, extrinsic rewards--high pay, bonuses, and vacations—completely dominate management's motivation methods. "Attractive" compensation packages seem justified because of the inherent "awfulness" of the work situation and community location.

A consensus of management thinking is that to get good people one mostly has to pay high salaries, give big bonuses, supply extravagant housing and provide lots of other extrinsic benefits. This is very expensive. Furthermore, it does not appear to produce results. The half-life (time it takes for the effect to be half of its initial level) of extrinsic benefits is relatively short. High salaries, bonuses, and so forth soon come to be accepted as normal. Further increases are necessary to achieve the needed motivational impacts.

On the other hand, intrinsic rewards tend to have longer half-lives. And, they are usually relatively low in cost. Furthermore, the kind of reward itself (such as greater on-the-job autonomy to pursue potential avenues for improvement) is likely to lead to self-definition of other extrinsic rewards (such as opportunity to direct a demonstration of the feasibility of one of the improvement ideas). Instead of providing luxury housing, supplying basic housing along with a limited budget to make their own improvements will probably produce better results. Helping invent local rituals, having their contribution to community development recognized and recorded and heading up a personal effort to recruit a group for a particular section are examples of possibly valuable intrinsic benefits.

Extrinsic excesses can swamp certain intrinsic options. For example, once a very high quality of housing is provided, the potential use of self-improvement of employee housing as a possible intrinsic reward is eroded. A related principle is to get away from "comparativism" in benefit packages. Rather than emphasis on how one person's benefits are better than another's to motivate output, better results at lower cost can be achieved by making the benefits to each employee unique, recognizing the particular contributions and interests of each worker.

Another facet of compensation to keep in mind is that direct payments to heads of household are largely shared by the household. Thus, the motivation to the employee, beyond providing an acceptable standard of living, is less. This means that the motivational impact of personal rewards is greater. Intrinsic rewards are inherently personal. They do not raise the issue of sharing with the household which attempts to provide personal extrinsic rewards often raise (e.g., the special gift or trip for the employee only).

Local Inflationary Syndromes

Instead of being a subdivision of a larger system, support communities are more like microcosms of an entire economy. Each management action in the support community produces a chain of reactions. These interrelated reactions establish a direction that triggers either a positive or negative syndrome.

A local micro-inflationary spiral is often experienced in support communities. Typically, remote construction jobs and industrial positions require high salaries to attract workers to semi-desirable locations. Soon these high salaries are offset by rising costs of services and housing provided locally. Higher wages are then demanded to offset the increased cost of living or the cost of travel and other expenses for periodic escapes. In the absence of other purposes and attractive opportunities for a resident's time and money, the action of the basic industrial employer and responses of the local service sectors act to escalate costs. A new approach is needed to interrupt this syndrome.

For example, an inadequate investment in community life at the inception of a project can significantly increase the investment required for the industrial facility because of low construction productivity. This often further reduces the investment available for community services and amenities. This, in turn, necessitates higher wages to attract operating personnel which reduces the return on investment for the venture.

On the other hand, negative syndromes can be interrupted and positive ones initiated. For example, a combination of investments in community amenities and selective recruitment of construction workers during early construction can lead to high levels of involvement and productivity. An incentive program structured to create opportunities for personal investment can attract a highly motivated workforce who would have long-term interests in the project area. This would encourage collateral industrial activities to develop and create interesting entrepreneurial roles in the service sector which could provide additional return on investment in community development.

Imbuing a support community with strong supplemental interests can do much to break up the local inflation created by artificial labor scarcity in response to cultural isolation and poor living conditions.

Past Experience and Current Projects

Some precedence can be found for virtually any planning project. However, the value of repeating actions from the past in new situations depends on the similarities in both the circumstances and the context. In the case of remote support communities, the crucial factors are socio-political. However, the models that have served as precedents for planning remote support communities, have usually been selected based on physical similarities. For example, military encampments, construction camps and agricultural plantations have been tried as models for planning support communities. Since these precedents have in fact quite different objectives and purposes, the models have not worked well.

Another point—a squeaky wheel gets the oil. In other words, we learn from the past what does not work and we can offer remedies. But seldom is sufficient attention directed to what did work well. And, if what worked well is noticed, what made it work well is hardly ever defined with the same precision as are causes of problems.

This suggests that in addition to basing the plans for support communities on inappropriate experience, planning also tends to give undue attention to what has not gone well. This means that inadvertently the key ingredients of past successes are often left out of the plans for the future support communities.

Instead of focusing on problems and ignoring past success, it would be better to support community plans on design intentions as well as experience. Well conceived designs are productive of general principles of action which tend to have great continuity between seemingly different projects.

Developmental Design

In the design of settings for living, the cost of certainty is too great. Certainty is achieved at the expense of local initiative, diffused control, openness to opportunity, and appreciation of wholeness. At best, the design of human communities is frustrating because it is impossible to reduce error to the degree of tolerance which is possible in the design of roads and bridges. The planning team is dedicated to the development of the acumen and talent for utilizing uncertainty.

The value of developmental design as it relates to support communities can be measured in the degree to which it provides for realization of new awareness and more encompassing reasons for being on the scene. Every ordinary aspect of community life can also be an aspect of some larger quest. For example, through the job one plans one's life as a career. Goods and services not only attend to functional needs, but serve as a basis for communication, a source of learning, and a model of resource utilization. Good community designs are those which allow people and groups to discover, and to value, more of themselves. Well designed settings in this sense help individuals to recognize and appreciate their abilities and to take responsibility for their lives.

Developmental approaches to design and planning are dedicated to future opportunities as well as instructed by past lessons. Since the future is unknowable, risk taking is viewed as endemic to these situations. Rather than waiting for complete knowledge to be available to serve as a basis for action, the pragmatic planner controls what he can control and begins by beginning a developmental process--being prepared to learn. Doing is viewed as a process of thinking--a form of practical intelligence--rather than an execution based on theory derived from evidence.

Rational systems and deductive models fail to provide guidance in settings of high uncertainty. Where the planning environment is interdependent, changing, and turbulent, attempts to suppress these characteristics by detailed goal setting and deterministic planning tend to increase the perception of chaos rather than insure order.

The key point for remote support communities is that the "things" such as schools, roads, hospitals, work settings which have stable meaning in other cultures are expected to bring order to turbulent settings. However, when they are simply transferred without transformation to remote locations they can become meaningless appendages, anomalous presences, and completely unresponsive to the needs which are eminent in the support community's particular setting. The approach advocated by this planning team is to use all of the everyday features of a community to shape a pattern of life that will attract the participation of residents in making their actions meaningful and productive.

Miniaturizing Urbanism

The most compelling quality of urbanism is its diversity. Diversity in lifestyles, diversity in recreational pursuits, diversity in human relationships, diversity in activity patterns, diversity in clutures, and so on. Diversity produces the urban life's excitement. Diversity beckons with the smile of opportunity to fuel individual aspirations.

Creating a satisfying and productive support community for a large-scale, remote processing or manufacturing operation means finding some way of producing a significant constellation of the benefits of urban life at a much reduced scale. It was failure of this dimension that made the "model cities" approach used in post-war Canada less than successful. Even if this support community grew to a population of 50,000 or 100,000, it could not provide a full range of services, goods, and opportunities that would imbue a remote site with a cosmopolitan character. Even ignoring economics, and spending the money it would take to build an extended range of activities as an initial part of a community-building project, there would be insufficient population to animate them properly and to give such abundant facilities excitement and portent.

Attempts have been made to scale down the complex of urban activities by representing all of the major categories of urban activities in a multipurpose activity center. In such communities an "entertainment center," a combination cocktail lounge, restaurant, club and pool hall may serve the functions that 20 or 30 separate establishments would provide in an urban setting. A hobby center often serves the function of a whole range of stores, clubs and private facilities. A religious center might accommodate various faiths and provide counseling services plus child care. This continued through all of the functionally defined sectors of urban life. This approach provides the chance to engage in a wide variety of activities. But, it usually doesn't support the gathering of a "critical mass" of involvement and commitment for activities. The general nature of these "centers" cannot support the specialization and specificity of interest that is necessary to cause the emergence, evolution, growth, and change of stable interest groups in a new community.

A more hopeful approach to scaling down urbanism can be described as creating mini-diversity. This approach tries to create the interactive properties of urbanism—its complexity, open-endedness, and intensiveness of specific interest--by pursuing intensively a reduced number of activities rather than trying "in general" to duplicate everything. The problem with small places, like remote support communities, is that highly general appeals have to be used because very narrowly defined and high specialized pursuits will not attract sufficient numbers. Established methods for development of groups, exchange of information, and defining interests in pursuits can make the mini-diversity approach to miniaturization of urbanism work. In this approach, multi-connectedness of fewer persons is substituted for a multiplicity of persons. Using a mini-diversity approach to support community development requires recruiting individuals who are self-starters. Individuals are needed who have some specific surplus skills which are shared with others plus other skills that are strong enough to be self-initiating.

Unless the concept of mini-diversity is kept in mind, the design of community facilities and organization of the community functions will tend to revert to plans for facilities to serve highly general categories of activities. Such facilities and programs are much too comprehensive and abstract to work well for smaller remote settings.

The need in support communities is not for simplification of needs, as is true in large urban settings, but for more complication. While making things more complicated and interrelated may seem counterproductive in terms of management practices followed in traditional metropolitan areas, it is necessary to produce results for remote support communities. Because a remote support community is too small to be all things to all people, it is better to be a few very interesting and exciting things to highly select groups. The activities to focus on as specialties have to be well chosen. A few choice "magnet" activities will enable individuals to be recruited who would not otherwise be available for assignments in the support community. At the same time, these select activities will provide "windows" for the evolution of distinctive local traditions.

The foregoing ideas are not intended as recommendations. Rather, they are mentioned as examples to indicate that the design of time can be used to shape the quality of life in a support community in important ways.

Opportunity-Sensitive Versus Deficiency-Correction Approaches

An effective approach to community development would be to adopt a few key concepts and use them as developmental initiatives to give direction and meaning to the community's evolution. Following this appraoch means not trying to be comprehensive and cover everything.

The contrasting approach emphasizes deficiency correction. This approach beginning with an assessment of the initial situation—which for remote support communities is either very little or nothing. What exists is then compared with an ideal community. This generates a long list of items which need to be taken care of. The concept for an ideal community is generated by cataloging all of the types of facilities and institutions that have been found in communities in general.

The model town concept, used to plan industrial support communities for the Canadian north, is an example of a "deficiency correction" approach. In Kitimat, Schefferville, Drayton Valley, and Elliot Lake facilities were built for a wide variety of social institutions and recreational pursuits. These facilities in scale and kind were far in excess of those typically available in a town of comparable size. Building these ideal facilities was part of a strategy for attracting and retaining workers for these remote sites.

It turned out that the investment in facilities alone was not sufficient to breathe life into organizations that would animate and benefit from these facilities. One vies is that the existence of the preplanned facilities acted as a disincentive to individual and group initiative.

Planning based on deficiency reduction leads to building facilities for abstract general uses, and not for specific activities of importance to the particular people whom the sponsor a a major project expects to attract to the site of the remote project. Deficiency reduction is plausible when the goal is to satisfy everyone in general, instead of trying to attract particular people. It is widely recognized that what is good for everybody is usually not particularly attractive to anybody.

A related point is that "model" communities announce themselves to new residents as being fully in being. As a result, residents tend to criticize them as such. The type of co-ments typical of new residents are criticisms in comparison with "back home." The common experience of living in a model community is one of continuing deterioration from initial excellence.

When an opportunity-sensitive approach to community development is employed the experience is quite different. Individuals get behind things, attempt to influence projects, try to make a difference. Each improvement is taken as evidence of progress. Every starting initiative begets additional development concepts. The "new wine" of achievement, increases the motivation for individual residents and groups to engage in larger and more involved actions to evidence their power and achieve more distinctive identity.

It comes down to a paraphrase of JFK's inaugural exhortation: Ask not what the community (company) has done for you, but what you can do for the community (company). Getting this message across requires actions that increase participation in what can be done and decrease criticism of what was provided.

At this point an analogy might serve well to contrast these management styles.

> Maintenance costs for repainting a facility can be looked at in different ways. One might arbitrarily allocate a budget of $5,000 for painting a building each year. That money could be allocated to reduce deficiencies; say by someone going with a light meter testing the drop-off in the reflectivity of the walls. One would then go around and repaint these walls. The net effect of the $5,000 expense would be minimal. Building users would probably notice first that the points at which the walls and ceiling had not been repainted are also deteriorated. The investment would have produced very little in the way of productivity improvements or motivational benefits.
>
> On the other hand, one could engage in a process involving the building users to decide what to paint (or whether to paint at all, considering other interests). Various views about the symbolic meaning of the areas to be selected for painting and the colors chosen could be elicited. What to do could be negotiated with the occupants. It has been shown that this decision process alone leads to positive benefits. Once such repainting has occurred, the differences in the environment are taken as a sign of management's interest and concern with the quality of the environment and the occupants. The chance serves as a source of identity for the people that occupy the environment. Responsibility for what occurs in the environment is diffused to a wider group of users. The investment is appreciated and usually increases productivity.

One can notice the opportunity sensitive approach in how an individual decorates his own residence. Rather than undertaking changes and investing money according to some objective engineering criteria of what needs attention, he follows what might be termed the decorator's paradigm. This results in brightened curtains and a few posters on the wall being the first things attempted to produce livability, not plumbing changes or general painting. Subsequently, other kinds of refinements are introduced: carpeting, dramatic lighting, selective painting, a few key furnishings. These improvements are seldom based on any measure of absolute physical deterioration. Instead they have a symbolic and visual impact.

It is important to pay attention to differences between these two paradigms for improvement in getting the most in employee productivity and satisfaction out of support community improvements. There is a tendency to believe that most of the accouterments of suburban life in North America are absolute first order necessities. However, closer examination and discussion with potential residents for remote support communities will likely reveal different priorities. These new priorities, possibly not normally available to urban residents, may be lower in cost and more possible to provide in remote areas than the standard urban design.

Master Plan as Detailed Schedule Instead of Grand Design

The approach we recommend for preparing a master plan for a community to support new resource utilization is to create a detailed master schedule for community implementation. This master schedule presents all the required community design elements at each stage in the development sequence along with descriptive details for individual projects. All actions necessary to create a viable support community will be identified in terms of specific projects to produce the necessary community design elements. Both social and physical community design elements will be specified in terms of a buildup in facilities and staff that will be phased in projects to respond to the requirements at each stage of community development.

A master plan produced by this approach focuses on the requirements for a viable support community at each stage of development. By contrast, most master plans depict conditions toward the end of the planning horizon and are relatively less concerned with intervening stages of development. Although much lip service is given by planners to concern with the implementation process, the types of drawings produced and the allocation of space and facilities are generally based on the target date of the plan. Relatively little documentation is produced for intervening stages.

It is important to emphasize the developmental sequence in community building. The target for planning is not a "finished" community that will be achieved in five or six years and then remain, little changed, for some period of time. Rather, community development is an orchestration of process which begings with the arrival of the first survey team and continues through the construction of manufacturing, training and community facilities and so on as the townsite is refined and U.S. employees are replaced by trained natives. In this view a "community" exists at all stages of development. The support community has to function in a way that is appropriate and adequate for each particular stage in its development.

In addition, it is well to maintain in the support community a perception of continuing progress. Opportunity to contribute to that progress should be open to as many individuals as possible. This means, in effect, the community is "never done." The support community is always being improved.

Management staff who come to direct the materials processing activities after operations have commenced should be more aware of ongoing community progress.

At this point the initial enthusiasm will be depleted and it will be necessary to stimulate employees' active and alert interest in continued community development. New positive initiative for community growth will be required. A "deficiency correction" approach is always easier for management to follow. However, it will produce relatively high costs with less management control while yielding very little in employee satisfaction. An "opportunity sensitive" approach allows costs to be limited while addressing situations defined as important and therefore significant motivators.

COMMUNITY MASTER SCHEDULE

The schedule of all development actions, in effect "the master plan," should be developed in a large, but manageable, wall chart. This chart—the Community Development Allocation Matrix—can be prepared in individual sections, each the width of a standard computer terminal printer.

The horizontal axis of this matrix begins with an abstract of the development scenario, and continues with the cost summaries, urban design synthesis, critical assumptions and policies, critical ratios for evaluating community performance, employment breaddowns by category, population forecasts by characteristics, and then descriptions of the community design elements categorized as primary functions; infrastructure systems; transformation projects; housing programs; governance activities; urban services; economic enterprises; interaction process; and collateral industries.

On the vertical axis the matrix is divided into development periods. The development periods are graduated in length from one month early in the progression to three months, six months and finally to one year beyond the critical development sequence.

These periods are grouped into the following development phases:

> Initiation—from first arrivals to start of first programmed construction activity;
>
> Inception—from start of first programmed construction activity to completion of basic facilities to support major construction and project administration activities;
>
> Formulation—from establishment of basic facilities to completion of the first phase infrastructure, facilities, and services that constitute a fundamental community;
>
> Development—from completion of fundamental community to organization and construction of a functioning support community;
>
> Transition—from completion of a functioning support community to achievement of three-fourths of target output of major processing facilities;
>
> Operation—from achievement of target output of major processing through subsequent ten years;
>
> Maturation—considerations beyond ten years.

The general form for the Community Development Allocation Matrix is presented on the following page. This matrix will provide a valuable overall picture of the time-phased development for the total community. It will also serve as a source of continuity for the project management team in the form of an effective management tool which can be quickly altered to respond to change and used to rapidly brief new personnel. This management tool will continue to be useful as planning moves into implementation. It will support the corporate management in proceeding with various community building projects while planning continues.

The Community Development Allocation Matrix can be used by management to evaluate implementation options and their impacts for alterations in specific community design elements. The adequacy and appropriateness of every project within each community design element can be traced for each stage of development identifying its relation to:

- population growth and change
- social activities
- public services
- environmental impact
- urban development
- community cost
- private business
- governmental operations

All of the supporting documents for the Community Development Allocation Matrix can be organized in separate bound volumes. These will include the development scenario, the urban design maps for each period of development, the population and cost summaries, the detailed development programs for each community design element, and a directory of supportive information.

COMMUNITY DEVELOPMENT ALLOCATION MATRIX*			Recommended Policies	Critical Ratios	Basic Employment	Construction Employees	Population Summaries	Spatial/Land Requirements	Primary Functions	Infrastructure Systems	Transformational Projects	Housing Programs	Governance Activities	Urban Services	Economic Enterprises	Institutional Structures	Interaction Processes	Collateral Industries	Externalities and Other Concerns
Community Development Description																			
Scenario	Costs	Diagram																	
INITIATION (3 Months)																			
INCEPTION (3 Months)																			
FORMATION (15 Months)																			
DEVELOPMENT (18 Months)																			
TRANSITION (72 Months)																			
OPERATION (10 Years)																			
MATURATION (6-10 Years)																			

*SMALL-SCALE ILLUSTRATIVE SAMPLE ONLY

ELEMENT OF COMMUNITY DESIGN (SAMPLE ONLY) | **CODE**

Description:

In this space the function and model for the particular community design element will be described. The transitions and transformations between successive stages in the growth of an element to serve community requirements.

This space will contain a diagrammatic representation or illustration of the critical stage or stages in development of a community design element, either social or physical.

Assumptions in conceptual design:

Benefits over other models:

0.0 INITIATION

These spaces will contain individual diagrams of the design element in development sequence.

1.0 INCEPTION

2.0 FORMATION

3.0 DEVELOPMENT

4.0 TRANSITION

5.0 OPERATION

MATURATION

FACILITIES INVESTMENT & OPERATING COST SUMMARY

(SAMPLE ONLY)

	CAPITAL ($ x 1000)	AREA (m² x 10)	PARKING	STAFF	OPERATIONS ($ x 1000)	OTHER
0.3						–2
0.2						–1
0.1						0
1.1						1
1.2						2
1.3						3
2.1						4
2.2						5
2.3						6
2.4						9
2.5						12
2.6						15
2.7						18
3.1						21
3.2						24
3.3						27
3.4						30
3.5						33
3.6						36

	CAPITAL ($ x 1000)	AREA (m² x 10)	PARKING	STAFF	OPERATIONS ($ x 1000)	OTHER
						42
4.1						48
						54
4.2						60
						66
4.3						72
						78
4.4						84
						90
4.5						96
						102
4.6						108
5.1						120
5.2						132
5.3						144
5.4						156
5.5						168
5.6						180
5.7						192
5.8						204
5.9						216
5.X						228

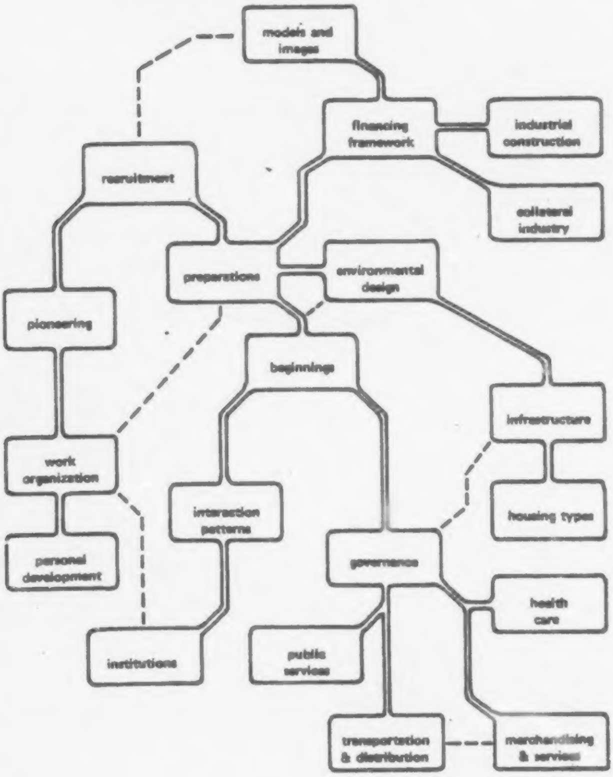
MATURATION

ORGANIZING PLANNING FOR SUPPORT COMMUNITIES

Beyond this general introductory framework an extensive effort has gone into defining the institutions, planning structures, and working methods needed to bring to life a strong, resilient, and economically productive support community.

These methods can be compiled into an unusual "designers handbook." This handbook includes design directives, design criteria, adequacy ratios, and rules-of-thumb which represent the accumulated wisdom of many past efforts—"How we'd do it again if we knew then what we know now." In addition, the handbook includes practical advice on how to achieve development objectives that have never been realized before. The intent of approach is evolutionary—to anticipate situations and deal constructively with their causes—rather than utopian to create an idea community.

CONCEPT AFFINITY DIAGRAM


models and images
financing framework
industrial construction
recruitment
collateral industry
preparations
environmental design
pioneering
beginnings
infrastructure
work organization
interaction patterns
housing types
personal development
governance
health care
institutions
public services
transportation & distribution
merchandising & services

Support Community Elements

The design elements out of which the support community will be developed have been divided into nine categories. These categories are:

(A) INFRASTRUCTURE SYSTEMS

(B) KEY FACILITIES

(C) HOUSING AND DIRECTLY RELATED IMPROVEMENTS

(D) GOVERNANCE ACTIVITIES

(E) GENERAL PUBLIC SERVICES

(F) COMMERCIAL ENTERPRISES

(G) INSTITUTIONAL STRUCTURES

(H) INTERACTION PROCESSES

(J) COLLATERAL INDUSTRIES

The key features and significant concepts of each community design element are illustrated in a numbered diagram. This is followed by a small chart which indicates the general approach to implementation of the particular element. This chart describes the timing of moving from preliminary planning and arrangements or negotiations through approvals to construction of facilities or organization of services and from this phase on to operation or management. Key milestones and steps in implementation are labeled and sales between organizations are shown. The implementation diagram is followed by a briefly written description of the design element, its means of implementation, and importance to the project.

SUPPORT COMMUNITY DESIGN ELEMENT

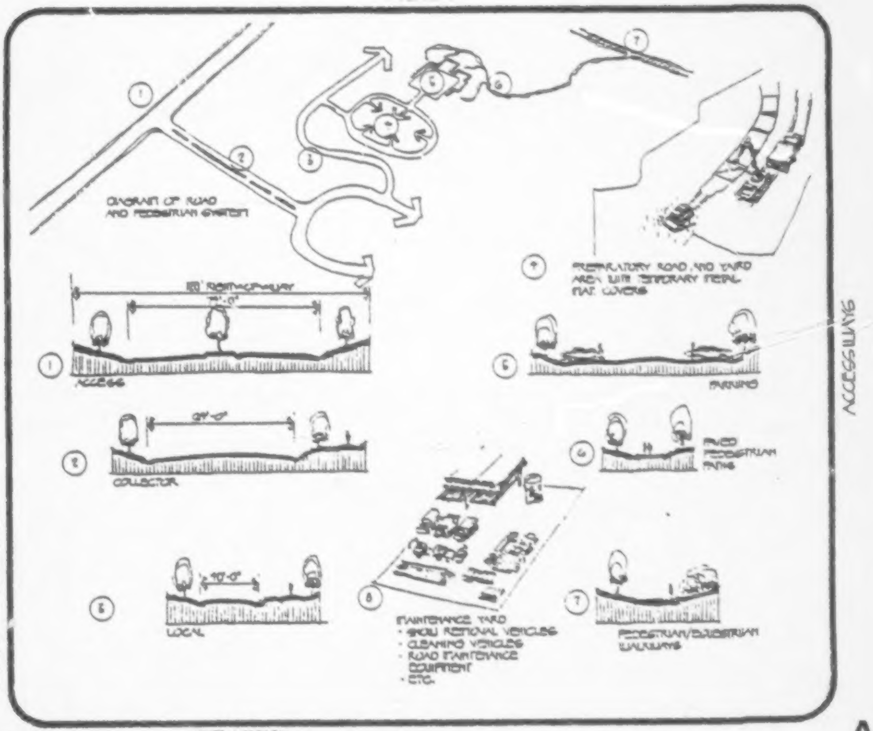
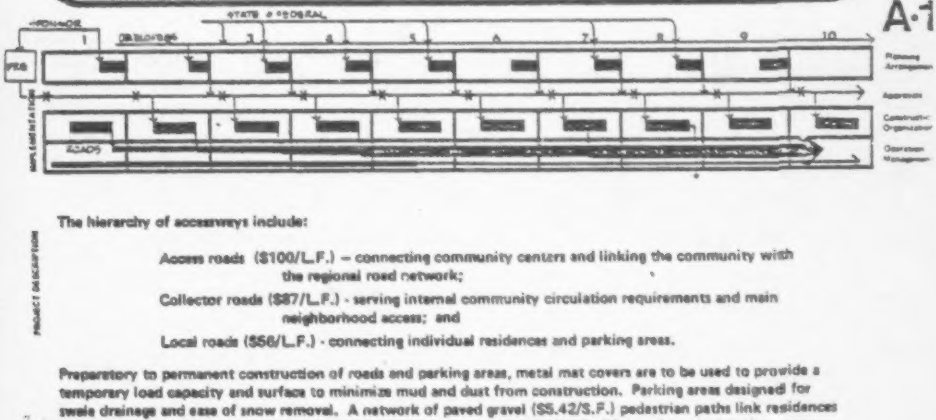


DIAGRAM OF ROAD AND PEDESTRIAN SYSTEM
1
2
3
4
5
6
7
8
9
ACCESSWAYS
120' RIGHT-OF-WAY
ACCESS
COLLECTOR
LOCAL
10'-0"
PREPARATORY ROAD AND YARD AREA WITH TEMPORARY METAL MAT COVERS
PARKING
PAVED PEDESTRIAN PATHS
MAINTENANCE YARD
- SNOW REMOVAL VEHICLES
- CLEANING VEHICLES
- ROAD MAINTENANCE EQUIPMENT
- ETC.
PEDESTRIAN/EQUESTRIAN WALKWAYS



PROJECT DESCRIPTION

The hierarchy of accessways include:

Access roads (\$100/L.F.) – connecting community centers and linking the community with the regional road network;

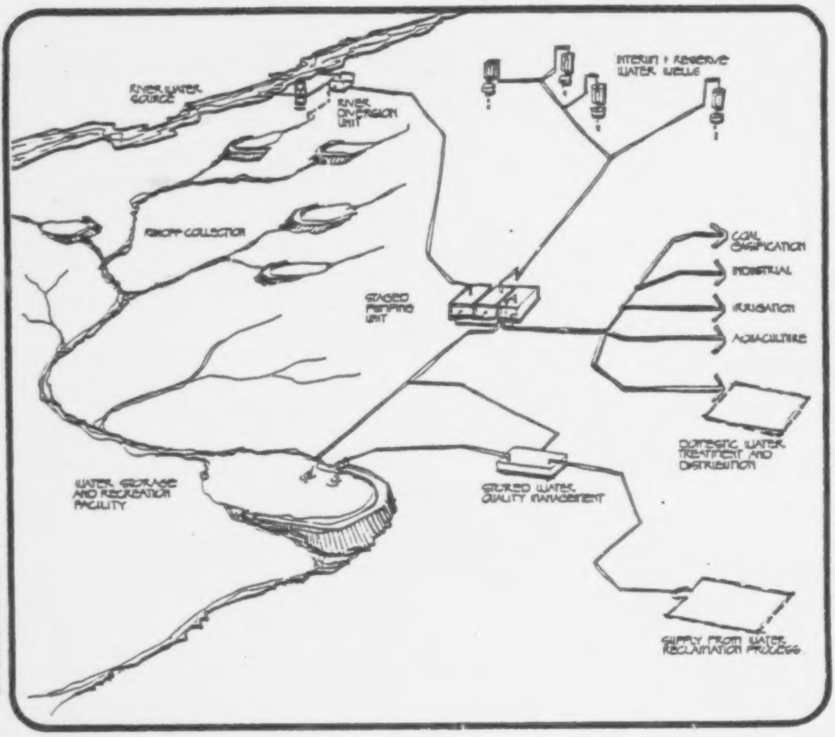
Collector roads (\$87/L.F.) - serving internal community circulation requirements and main neighborhood access; and

Local roads (\$56/L.F.) - connecting individual residences and parking areas.

Preparatory to permanent construction of roads and parking areas, metal mat covers are to be used to provide a temporary load capacity and surface to minimize mud and dust from construction. Parking areas designed for swale drainage and ease of snow removal. A network of paved gravel (\$5.42/S.F.) pedestrian paths link residences and community facilities. A system of pedestrian/equestrian walkways (\$10/L.F.) have been designed to serve scenic routes and major passive recreation areas (e.g., arboretum).

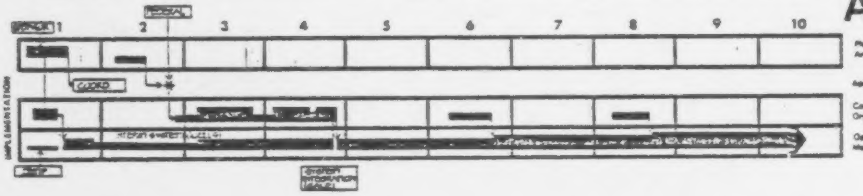
SUPPORT COMMUNITY DESIGN ELEMENT

REGIONAL WATER SUPPLY PROJECT


RIVER WATER SOURCE
RIVER DIVERSION UNIT
INTERIM + RESERVE WATER WELLS
RUNOFF COLLECTOR
STAGED PUMPING UNIT
COAL GASIFICATION
INDUSTRIAL
IRRIGATION
AQUACULTURE
DOMESTIC WATER TREATMENT AND DISTRIBUTION
WATER STORAGE AND RECREATION FACILITY
STORED WATER QUALITY MANAGEMENT
SUPPLY FROM WATER RECLAMATION PROCESS

A·2

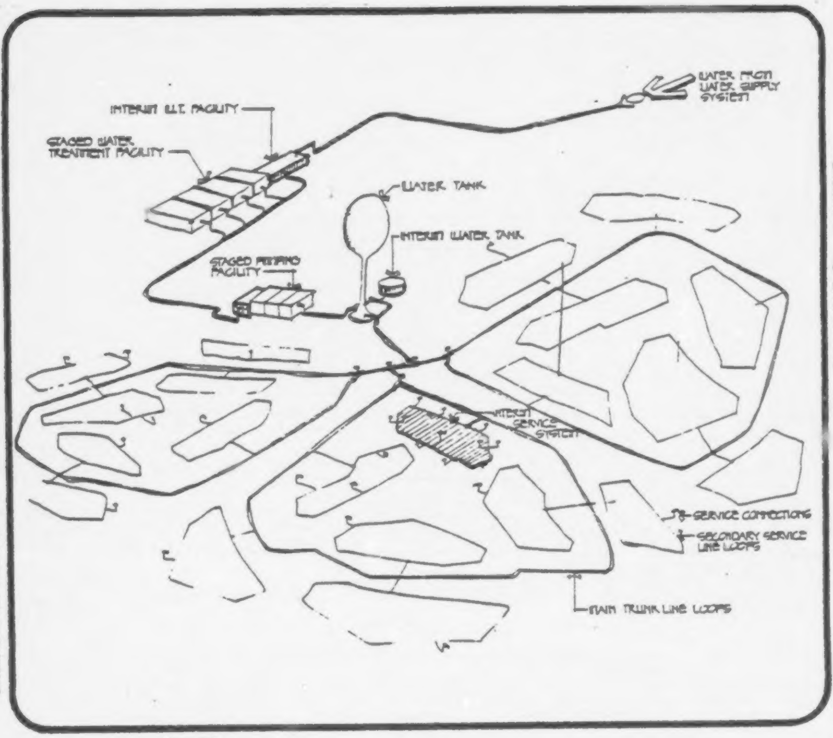
IMPLEMENTATION



PROJECT DESCRIPTION

A Regional Water Supply Project will be constructed to provide the major water resource for continuing economic growth and expansion of the support community. Upon completion of the Project utilizing a variety of Federal funding sources, operation of the system will be continued by a public authority financed by long-term contracts to supply water to community domestic water distributors, industries, agricultural and other major users.

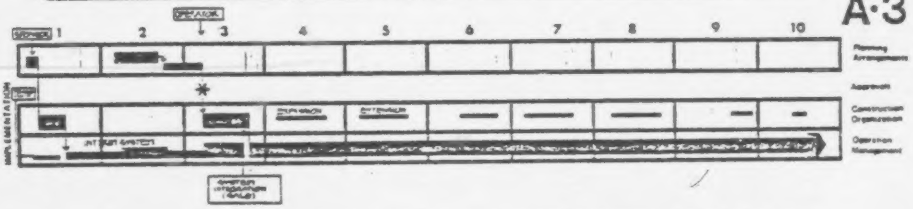
SUPPORT COMMUNITY DESIGN ELEMENT


WATER FROM
WATER SUPPLY
SYSTEM
INTERIM W.T. FACILITY
STAGED WATER
TREATMENT FACILITY
WATER TANK
INTERIM WATER TANK
STAGED PUMPING
FACILITY
INTERIM
SERVICE
SYSTEM
SERVICE CONNECTIONS
SECONDARY SERVICE
LINE LOOPS
MAIN TRUNK LINE LOOPS

DOMESTIC WATER DISTRIBUTION SYSTEM
(CHALK BLUFFS)

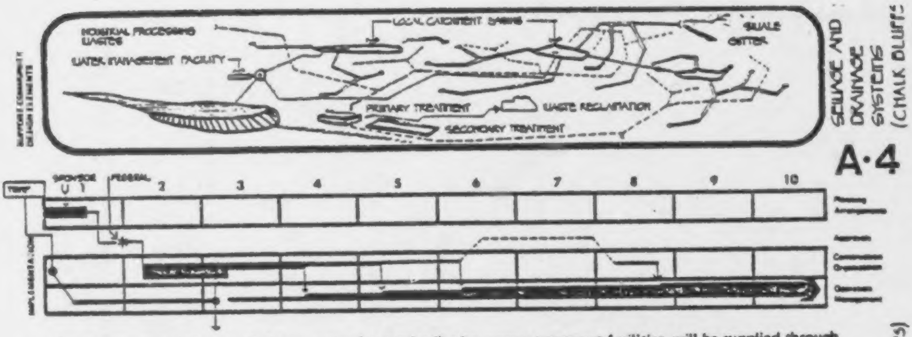
A·3

IMPLEMENTATION



PROJECT DESCRIPTION

The water treatment and distribution system for the support community will be constructed in stages keyed to population growth and providing for an interim system that can be incorporated in the overall system design as the community grows. Capitalization and operation of a domestic water treatment and distribution system at rates prevailing in the area can produce revenues in excess of expenses.


SUPPORT COMMUNITY DESIGN ELEMENTS
INDUSTRIAL PROCESSING WASTES
WATER MANAGEMENT FACILITY
LOCAL CATCHMENT BASINS
SWALE
GUTTER
PRIMARY TREATMENT
WASTE RECLAMATION
SECONDARY TREATMENT
IMPLEMENTATION
SPONSOR
FEDERAL
1
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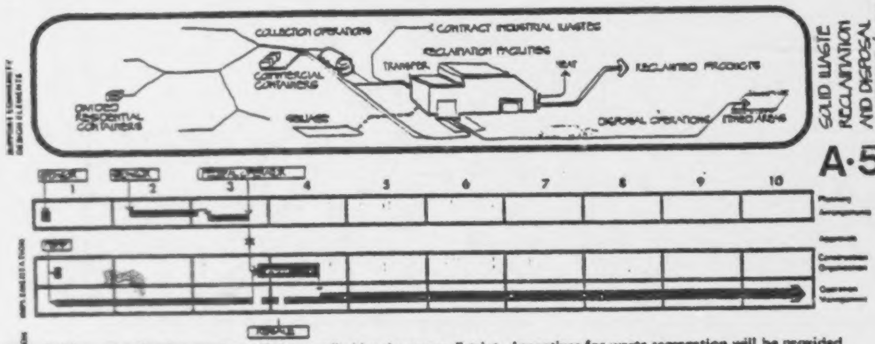
Planning Arrangements
Approvals
Construction Organization
Operation Management

SEWAGE AND DRAINAGE SYSTEMS (CHALK BLUFFS)

A·4

PROJECT DESCRIPTION

A sanitary sewer and storm drainage system (as required), plus sewage treatment facilities, will be supplied through a sewer district organized for these and other permitted purposes. Water will be recovered from the Project for irrigation use and waters in local catchment basins will be circulated and treated to maintain quality.


SUPPORT COMMUNITY DESIGN ELEMENTS
COLLECTION OPERATIONS
CONTRACT INDUSTRIAL WASTES
RECLAMATION FACILITIES
TRANSFER
HEAT
RECLAIMED PRODUCTS
COMMERCIAL CONTAINERS
DIVIDED RESIDENTIAL CONTAINERS
SALVAGE
DISPOSAL OPERATIONS
FILLED AREAS
IMPLEMENTATION
1
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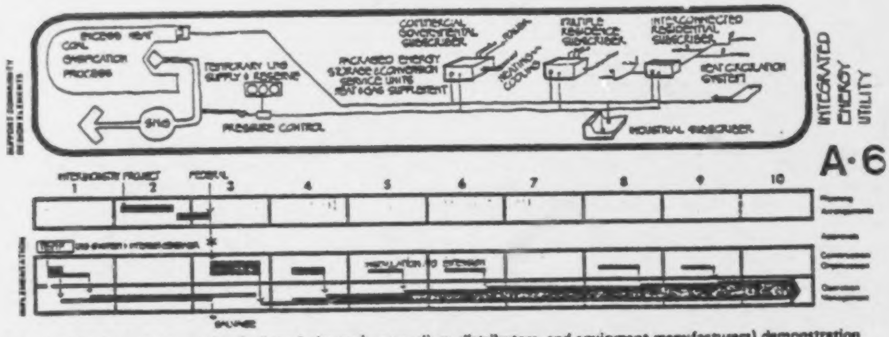
Planning Arrangements
Approvals
Construction Organization
Operation Management

SOLID WASTE RECLAMATION AND DISPOSAL SYSTEMS (CHALK BLUFFS)

A·5

PROJECT DESCRIPTION

Solid waste collection services will be supplied by the sewer district. Incentives for waste segregation will be provided to enable reclamation efforts to be productive at low volumes.


SUPPORT COMMUNITY DESIGN ELEMENTS
EXCESS HEAT
COAL GASIFICATION PROCESS
SNG
TEMPORARY LNG SUPPLY & RESERVE
PRESSURE CONTROL
PACKAGED ENERGY STORAGE & CONVERSION SERVICE UNITS HEAT & GAS SUPPLEMENT
COMMERCIAL GOVERNMENTAL SUBSCRIBER
SOLAR
HEATING COOLING
MULTIPLE RESIDENCE SUBSCRIBER
INTERCONNECTED RESIDENTIAL SUBSCRIBER
HEAT CIRCULATION SYSTEM
INDUSTRIAL SUBSCRIBER
IMPLEMENTATION
INTER-INDUSTRY PROJECT
FEDERAL
1
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INSTALLATION TO EXTENSION
SALVAGE
Planning Arrangements
Approvals
Construction Organization
Operation Management

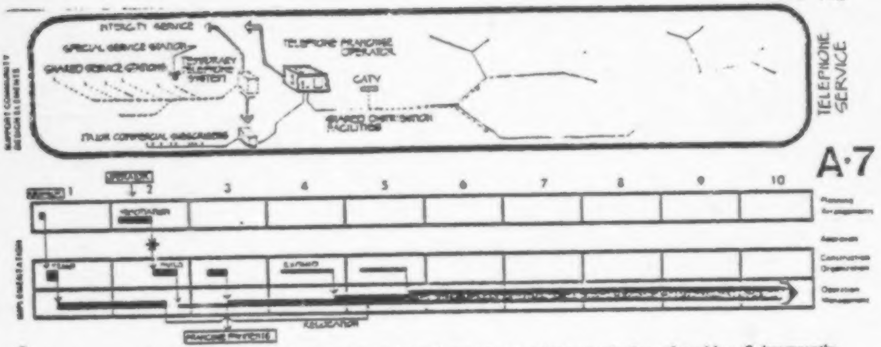
INTEGRATED ENERGY UTILITY

A·6

PROJECT DESCRIPTION

Use the support community for inter-industry (gas suppliers, distributors, and equipment manufacturers) demonstration project for integrated package units to produce heating and cooling and electrical service from a combination of gas and waste heat from industrial operations. Operate this utility as a non-profit corporation with excess of revenues over expenses used for system improvements and demonstrations, such as solar energy supplements.

A·7 TELEPHONE SERVICE


SUPPORT COMMUNITY DESIGN ELEMENTS
INTERCITY SERVICE
SPECIAL SERVICE STATION
SHARED SERVICE STATIONS
TEMPORARY TELEPHONE SYSTEM
TELEPHONE FRANCHISE OPERATION
CATV
SHARED DISTRIBUTION FACILITIES
MAJOR COMMERCIAL SUBSCRIBERS
IMPLEMENTATION
1
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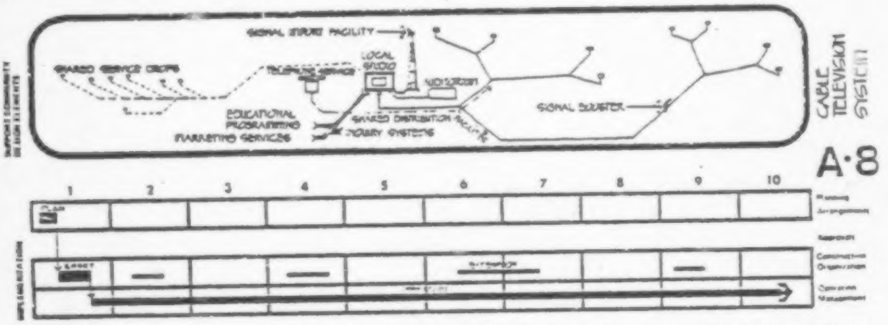
Planning Arrangements
Approvals
Construction Organization
Operation Management
FRANCHISE PAYMENTS
RELOCATION

PROJECT DESCRIPTION

Install automatic telephone switchboard for the initial period while negotiating a telephone franchise. Subsequently install the switchboard to serve the needs of major subscribers.

A·8 CABLE TELEVISION SYSTEM


SUPPORT COMMUNITY DESIGN ELEMENTS
SIGNAL SUPPORT FACILITY
SHARED SERVICE DROPS
TELEPHONE SERVICE
LOCAL STUDIO
EDUCATIONAL PROGRAMMING
MARKETING SERVICES
SHARED DISTRIBUTION FACILITY
INQUIRY SYSTEMS
SIGNAL BOOSTER
IMPLEMENTATION
1
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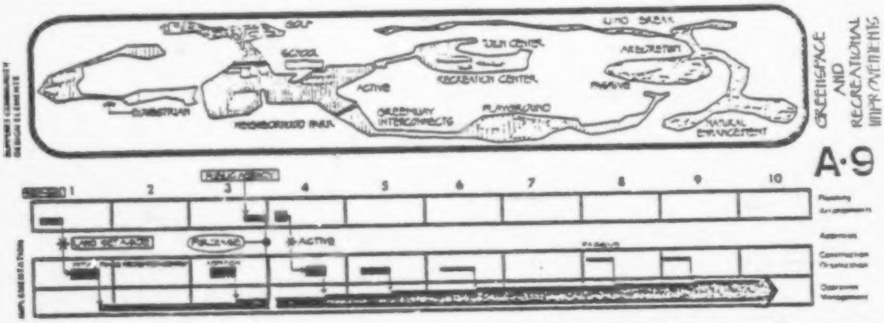
Planning Arrangements
Approvals
Construction Organization
Operation Management

PROJECT DESCRIPTION

Cable television service can be franchised to serve residents of the area with signals from a tower supplied by community developers, as well as locally-originating programming, taped programs and shopping service. A two-way capability can be provided, and the distribution system shared with the telephone service.

A·9 GREENSPACE AND RECREATIONAL IMPROVEMENTS


SUPPORT COMMUNITY DESIGN ELEMENTS
GOLF
TOWN CENTER
ARBORETUM
SCHOOL
RECREATION CENTER
ACTIVE
PASSIVE
EQUESTRIAN
NEIGHBORHOOD PARK
GREENWAY INTERCONNECTS
PLAYGROUND
NATURAL ENHANCEMENT
IMPLEMENTATION
1
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6
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9
10
ACTIVE
PASSIVE
Planning Arrangements
Approvals
Construction Organization
Operation Management

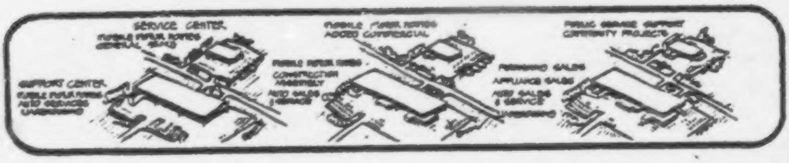
PROJECT DESCRIPTION

A network of pedestrian pathways and equestrian–bicycle trails connect both active and passive recreational improvements. A special gardening program and irrigation system is required to maintain the quality of the improvements. Special plant materials will be developed and produced for the support community. Reserve land will be used to provide a land-use buffer to discourage uncontrolled marginal economic growth at the edge of the community.

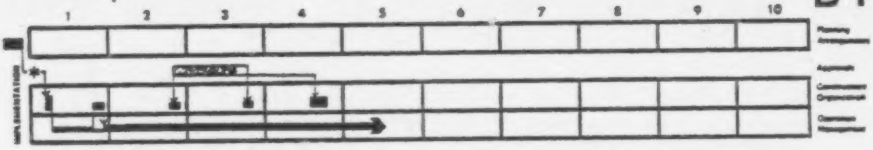
INAUGURAL SUPPORT AND SERVICE CENTER

B·1

SUPPORT COMMUNITY DESIGN ELEMENTS


SERVICE CENTER
MOBILE MOTOR HOMES GENERAL SALES
SUPPORT CENTER
MOBILE MOTOR HOMES AUTO SERVICES LAUNDROMAT
MOBILE MOTOR HOMES ADDED COMMERCIAL
MOBILE MOTOR HOMES
CONSTRUCTION ASSEMBLY
AUTO SALES & SERVICE
PUBLIC SERVICE SUPPORT COMMUNITY PROJECTS
APPLIANCE SALES
AUTO SALES & SERVICE
LAUNDROMAT

IMPLEMENTATION



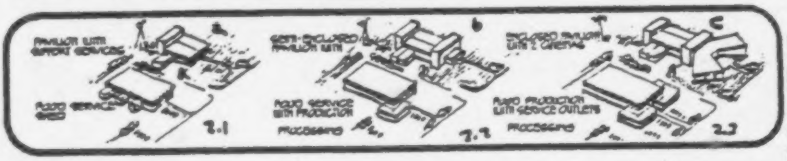
PROJECT DESCRIPTION

The use of the support and service centers evolve and elaborate during the course of community development. Initially, they provide weather protection and integrative focus for a motor and mobile home encampment. Initiating development with sizable structures indicates the intentions of the sponsors and developers and keeps impact from appearing diffuse and potentially sprawling.

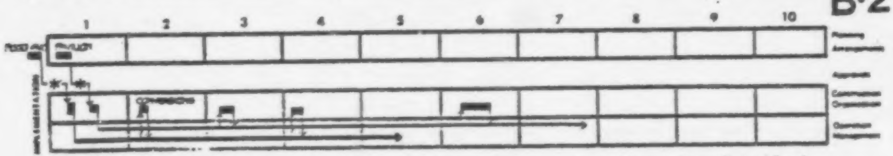
FOOD SERVICE AND ENTERTAINMENT FACILITIES

B·2

SUPPORT COMMUNITY DESIGN ELEMENTS


PAVILION WITH SUPPORT SERVICES
a
FOOD SERVICE SHED
2.1
SEMI-ENCLOSED PAVILION WITH
b
FOOD SERVICE WITH PRODUCTION
PROCESSING
2.2
ENCLOSED PAVILION WITH 2 CINEMAS
c
FOOD PRODUCTION WITH SERVICE OUTLETS
PROCESSING
2.3

IMPLEMENTATION



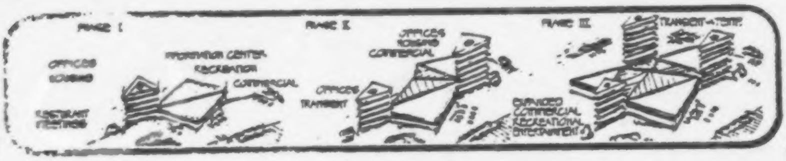
PROJECT DESCRIPTION

The food processing facility will first provide food service to early community residents evolving limited food production and packaging capacity to serve special local needs and later to process local production. The central entertainment facility will grow with the community to serve both cultural and educational as well as entertainment needs.

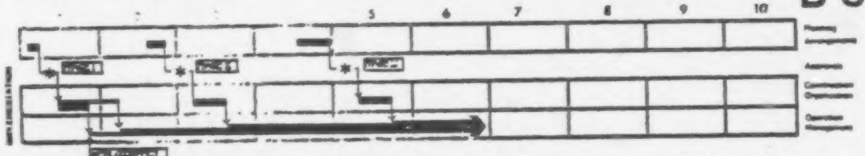
THEME CENTER

B·3

SUPPORT COMMUNITY DESIGN ELEMENTS

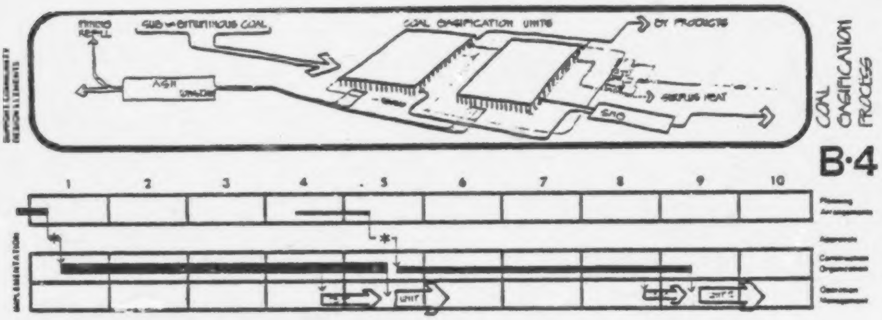

PHASE I
OFFICES HOUSING
INFORMATION CENTER RECREATION
COMMERCIAL
RESTAURANT MEETINGS
PHASE II
OFFICES HOUSING COMMERCIAL
OFFICES TRANSIENT
PHASE III
TRANSIENT + TEMP.
EXPANDED COMMERCIAL RECREATIONAL ENTERTAINMENT

IMPLEMENTATION



PROJECT DESCRIPTION

The theme center for the support community begins as a one-building "downtown" and thereafter serves as the center for community life in addition to a "hatching place" for its economic and social organizations. The early presence of a theme center in the community's development serves as evidence of what to expect in the future and thereby gives witness to the plans of the sponsors and developers.


SUPPORT COMMUNITY DESIGN ELEMENTS
MINED REFILL
SUB-BITUMINOUS COAL
COAL GASIFICATION UNITS
BY PRODUCTS
ASH
SURPLUS HEAT
SNG
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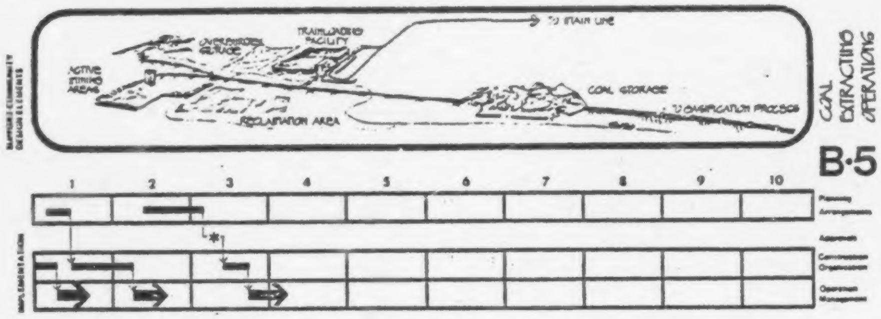
IMPLEMENTATION
*
UNIT
UNIT
Planning Arrangements
Approvals
Construction Organization
Operation Management

COAL GASIFICATION PROCESS

B·4

PROJECT DESCRIPTION

Two Lurgi process coal gasification units are planned for the area to supply 250 million cubic feet per day of synthetic natural gas (SNG) to pipeline customers.


SUPPORT COMMUNITY DESIGN ELEMENTS
ACTIVE MINING AREAS
OVERBURDEN STORAGE
TRAIN LOADING FACILITY
TO MAIN LINE
COAL STORAGE
TO GASIFICATION PROCESS
RECLAMATION AREA
1
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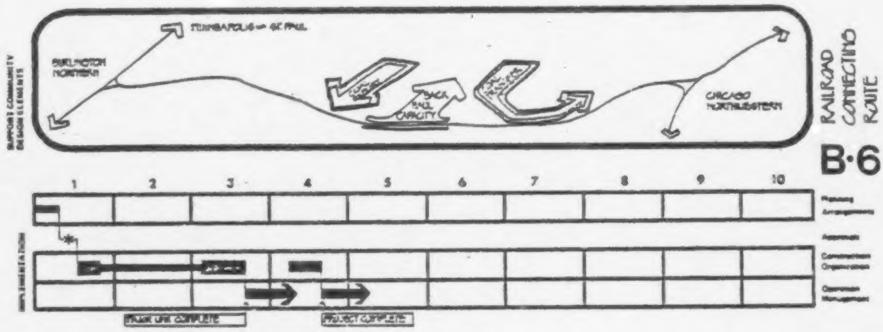
IMPLEMENTATION
*
Planning Arrangements
Approvals
Construction Organization
Operation Management

COAL EXTRACTING OPERATIONS

B·5

PROJECT DESCRIPTION

Four coal mining operations are contemplated for the Antelope coal deposit in the Powder River Basin.


SUPPORT COMMUNITY DESIGN ELEMENTS
MINNEAPOLIS - ST. PAUL
BURLINGTON NORTHERN
BACK HAUL CAPACITY
CHICAGO NORTHWESTERN
1
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IMPLEMENTATION
*
Planning Arrangements
Approvals
Construction Organization
Operation Management
TRAIN UNI COMPLETE
PROJECT COMPLETE

RAILROAD CONNECTING ROUTE

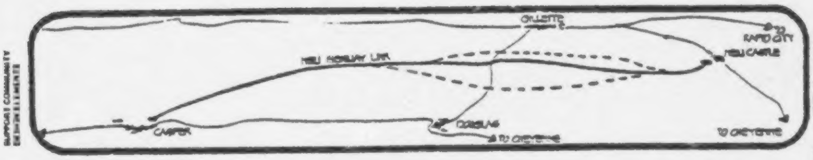
B·6

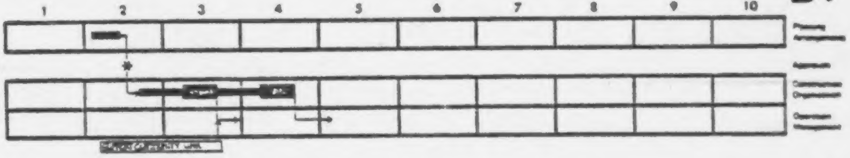
PROJECT DESCRIPTION

A major railroad link to serve the coal producing area is being undertaken by Burlington Northern Railroad together with the Chicago and Northwestern Railroad.

REGIONAL HIGHWAY LINKS

B·7


SUPPORT COMMUNITY DESIGN ELEMENTS
GILLETTE
TO RAPID CITY
NEW CASTLE
NEW HIGHWAY LINK
CASPER
DOUGLAS
TO CHEYENNE
TO CHEYENNE

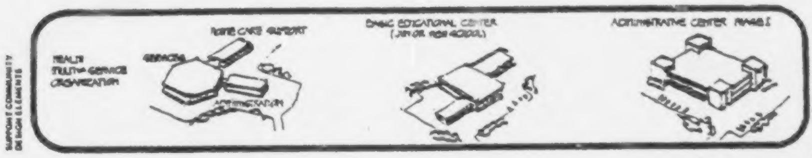


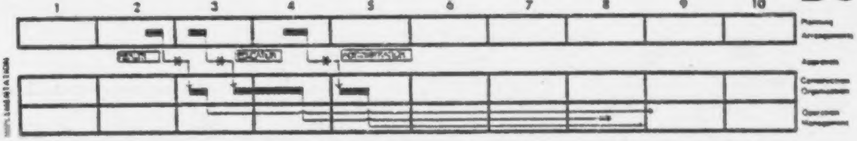
PROJECT DESCRIPTION

The Wyoming State Highway Department plans a new highway link to serve the region.

BASIC SERVICE FACILITIES

B·8


SUPPORT COMMUNITY DESIGN ELEMENTS
HEALTH MULTI-SERVICE ORGANIZATION
GERIATRIC
HOME CARE SUPPORT
ADMINISTRATION
BASIC EDUCATIONAL CENTER (JUNIOR HIGH SCHOOL)
ADMINISTRATIVE CENTER PHASE I

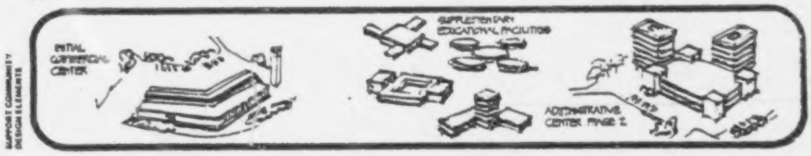


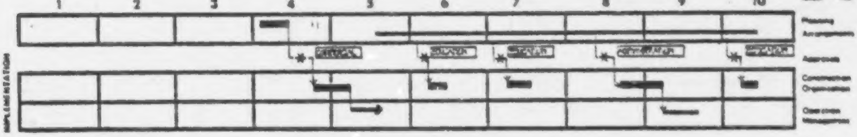
PROJECT DESCRIPTION

Basic service facilities will be constructed to house health, education and government plus some commercial activities. These facilities will be planned in liaison with their eventual "buyers," a non-profit health group, the local education agency, and local government agencies.

BASIC GROWTH FACILITIES

B·9

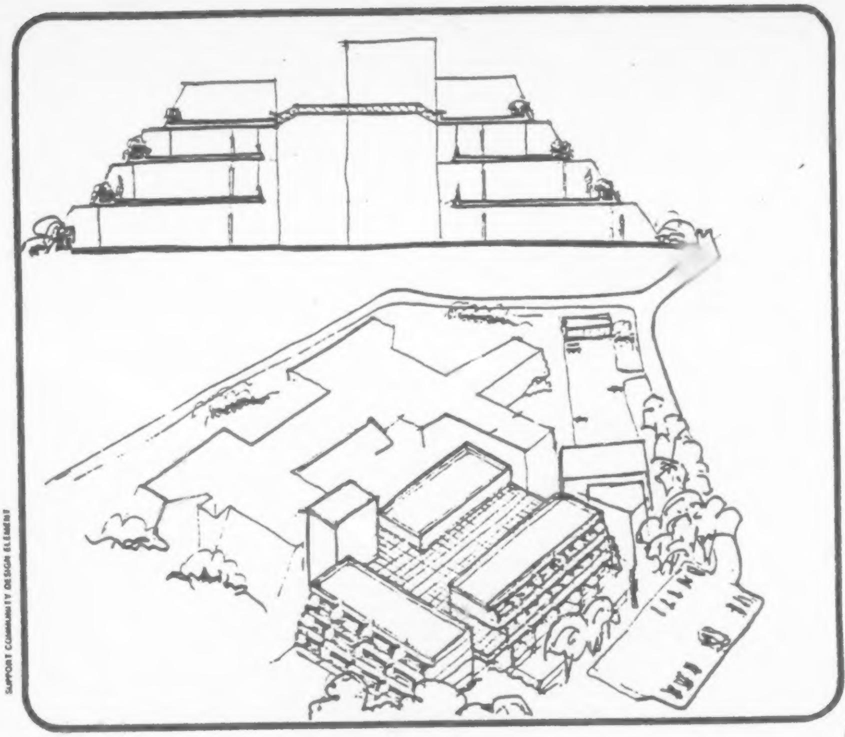

SUPPORT COMMUNITY DESIGN ELEMENTS
INITIAL COMMERCIAL CENTER
SUPPLEMENTARY EDUCATIONAL FACILITIES
ADMINISTRATIVE CENTER PHASE 2



PROJECT DESCRIPTION

Facilities to respond to rapid community expansion will be built in advance of permanent financing to respond to community needs and opportunities with subsequent transfer to long-term ownership.

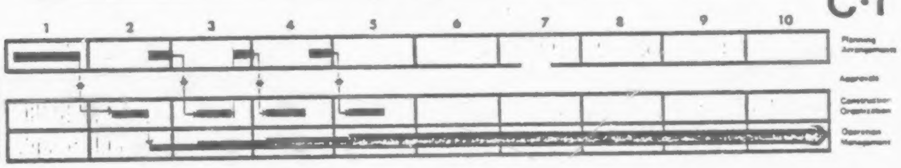
SUPPORT COMMUNITY DESIGN ELEMENT



APARTMENT COMPLEXES

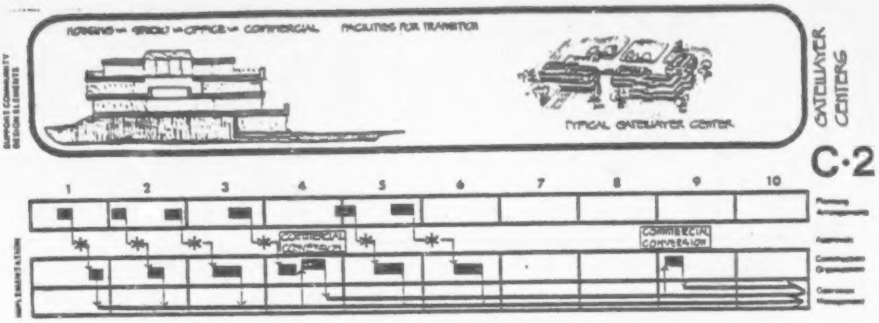
C·1

IMPLEMENTATION



PROJECT DESCRIPTION

Apartment complexes will include large-scale common spaces to provide for year-round use. The development program is geared to supply many apartment units in the early years. This will more easily provide the quantity of housing required for new residents, many of whom will be involved in construction activities, and to be followed by housing purchases as decisions to stay are made and permanent industrially-employed residents arrive.


SUPPORT COMMUNITY DESIGN ELEMENTS
HOUSING — STUDIO — OFFICE — COMMERCIAL
FACILITIES FOR TRANSITION
TYPICAL GATEWAYER CENTER
GATEWAYER CENTERS
C·2
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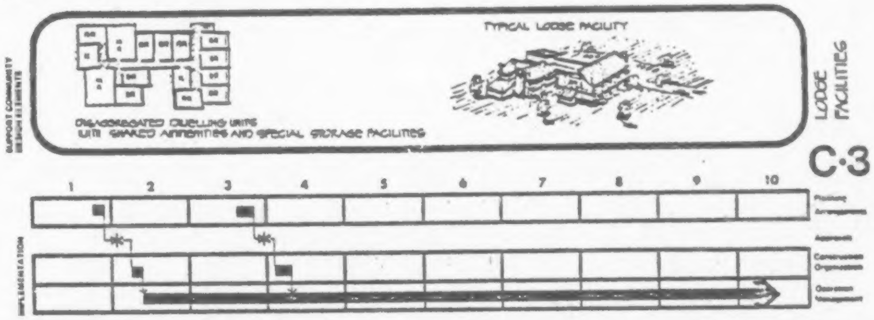
COMMERCIAL CONVERSION
COMMERCIAL CONVERSION
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operations Management

PROJECT DESCRIPTION

Gatewayer centers will vary in design; they are intended to serve as "live-in models" from which designs for housing development programs for subsequent years can be validated. As the community matures, independent professionals, artisans and small service shops will utilize gatewayer units as mixed-use facilities, creating a nexus for community life.


SUPPORT COMMUNITY DESIGN ELEMENTS
TYPICAL LODGE FACILITY
DISAGGREGATED DWELLING UNITS WITH SHARED AMENITIES AND SPECIAL STORAGE FACILITIES
LODGE FACILITIES
C·3
1
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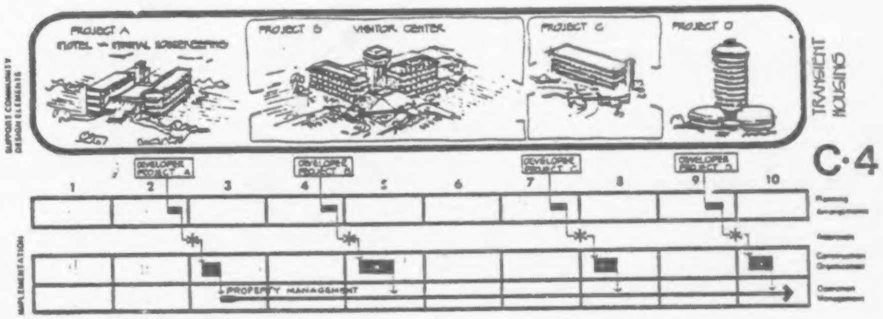
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operations Management

PROJECT DESCRIPTION

Lodge facilities have been designed to serve as an intermediary between transient and permanent housing, particularly for new community residents during peak expansion period. Subsequently, they will serve the youth, the elderly, and those visiting the settlers in the support community.


SUPPORT COMMUNITY DESIGN ELEMENTS
PROJECT A
MOTEL —
PROJECT B
VISITOR CENTER
PROJECT C
PROJECT D
TRANSIENT HOUSING
C·4
DEVELOPER PROJECT A
DEVELOPER PROJECT B
DEVELOPER PROJECT C
DEVELOPER PROJECT D
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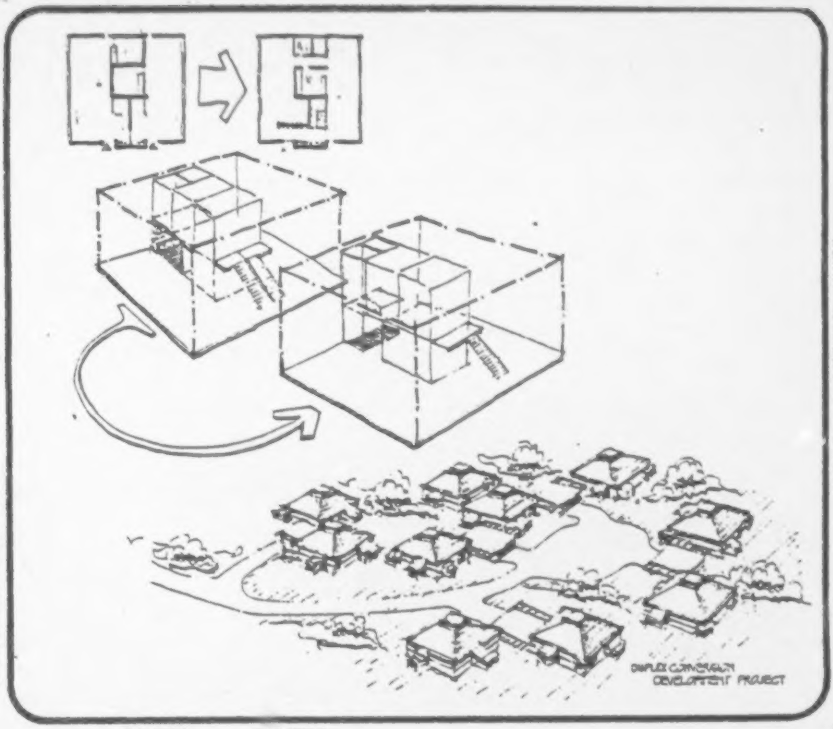
PROPERTY MANAGEMENT
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operations Management

PROJECT DESCRIPTION

The demand for transient facilities in areas experiencing industrial growth and with many new and temporary residents is significantly above the normal level—often reaching 8–10 percent of a community's permanent dwelling units.

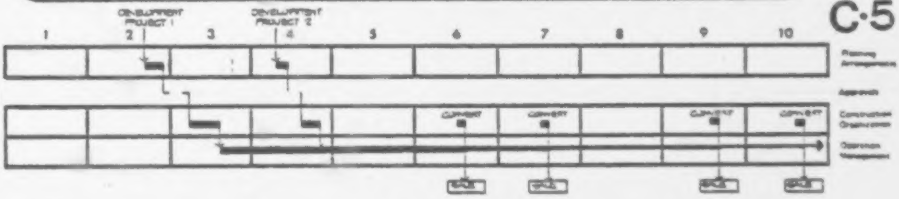
SUPPORT COMMUNITY DESIGN ELEMENT

DUPLEX CONVERSION UNITS



C·5

IMPLEMENTATION

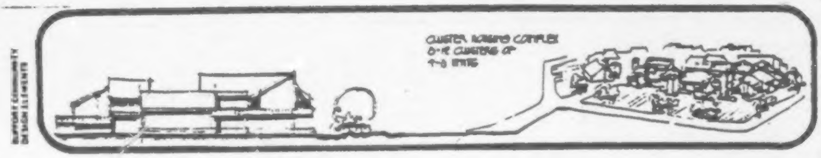


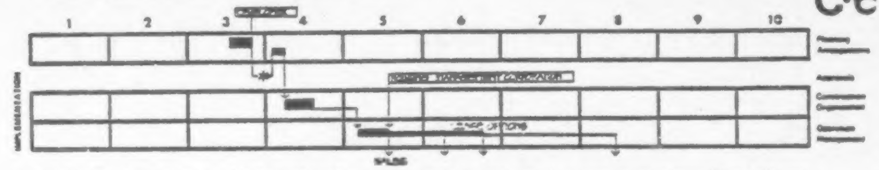
PROJECT DESCRIPTION

Duplex-conversion units have been provided in the support community plan to facilitate rapid construction of units which can later be converted to more commodious single-family occupancy. In the conversion, one of the kitchens on the lower level will be changed to a lavatory and laundry room, a door will be added, and one of the staircases removed. These units will provide adequate housing as duplex units for families during the early years and converting to more commodious use for permanent residents. These units can be offered at some savings, since the units would have been partially ammortized at a higher rate by duplex occupancy in the early years.

CLUSTER HOUSING UNITS

C·6


SUPPORT COMMUNITY DESIGN ELEMENTS
CLUSTER HOUSING COMPLEX
6-12 CLUSTERS OF
4-8 UNITS

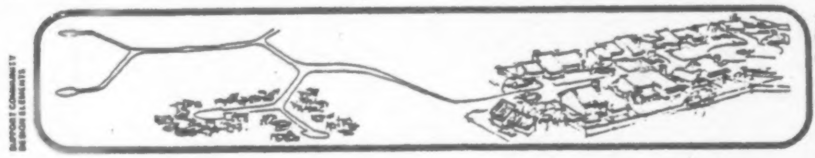


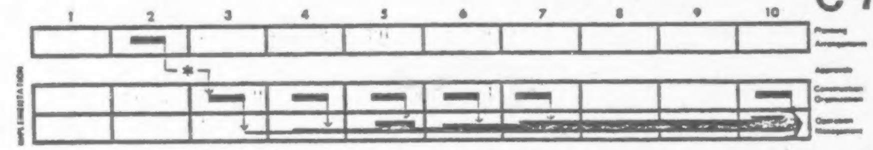
PROJECT DESCRIPTION

Cluster housing will be provided based on design approaches market-tested at gatewayer centers. Sizes will vary from large studios to small three bedroom units. Insofar as possible, clusters will be built for specific owner groups who will initiate options for units for both their own occupancy and sale or management for others.

SINGLE-FAMILY DETACHED HOUSING

C·7


SUPPORT COMMUNITY DESIGN ELEMENTS

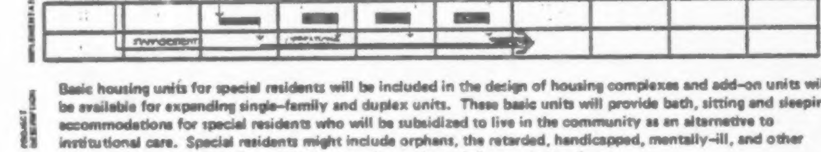


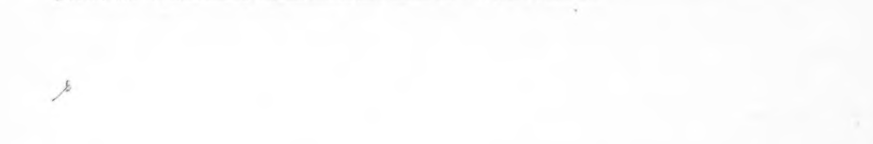
PROJECT DESCRIPTION

Single-family detached housing will be built to serve needs of higher-salaried technical and management personnel. Earlier occupancy by construction supervisory personnel and others will provide offsetting income and permit earlier construction, reducing inflationary impact.

SPECIAL RESIDENT HOUSING

C·8

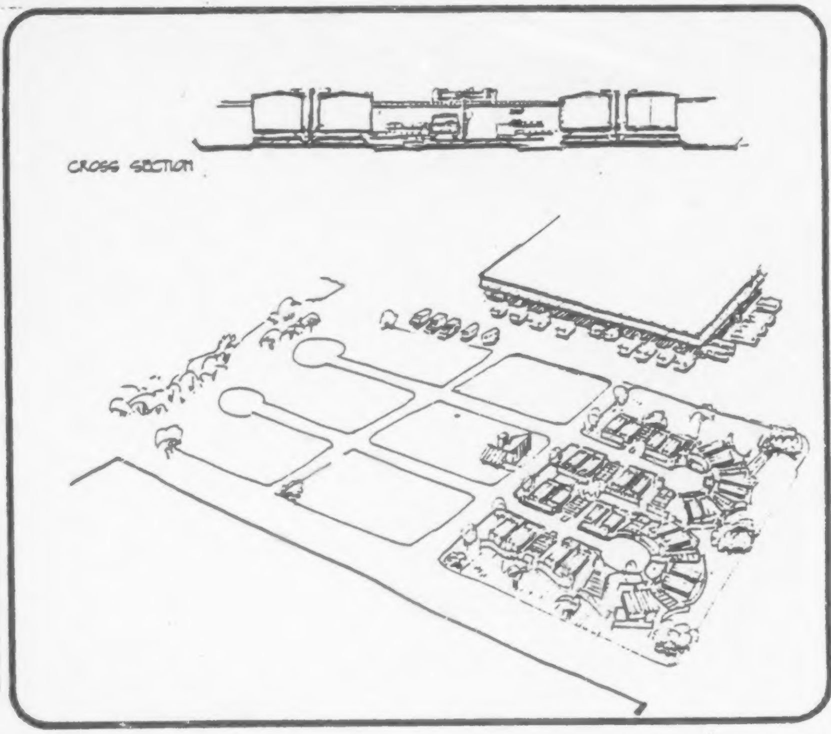

SUPPORT COMMUNITY DESIGN ELEMENTS
SINGLE FAMILY
MULTI-FAMILY
HOUSING COMPLEX INCLUSION
SPECIAL RESIDENT SERVICE CENTER
BASIC UNIT



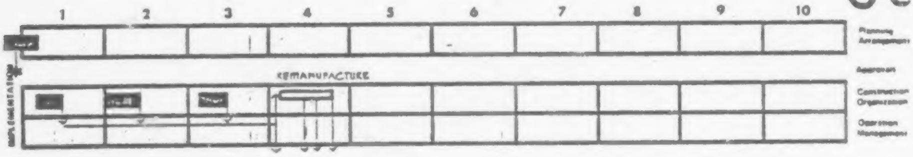
PROJECT DESCRIPTION

Basic housing units for special residents will be included in the design of housing complexes and add-on units will be available for expanding single-family and duplex units. These basic units will provide bath, sitting and sleeping accommodations for special residents who will be subsidized to live in the community as an alternative to institutional care. Special residents might include orphans, the retarded, handicapped, mentally-ill, and other persons who are functionally capable but require moderate infrequent attention.

SUPPORT COMMUNITY DESIGN ELEMENT


CROSS SECTION
MOBILE HOME PARK

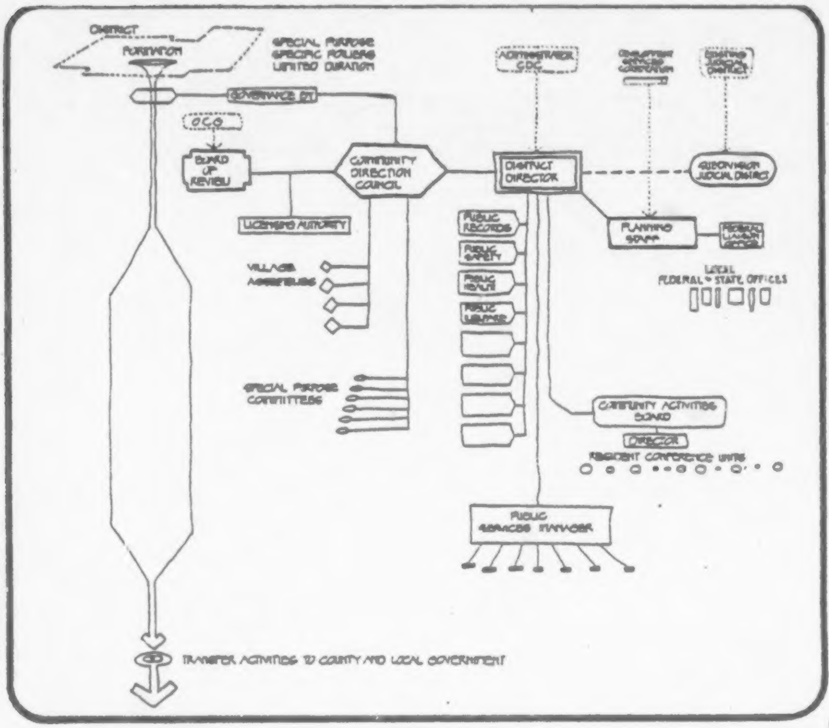
C·9



PROJECT DESCRIPTION

Mobile homes are contemplated to provide housing during the early years of development with a phasing-out through remanufacture and resale for use in small remote settlements planned for the area.

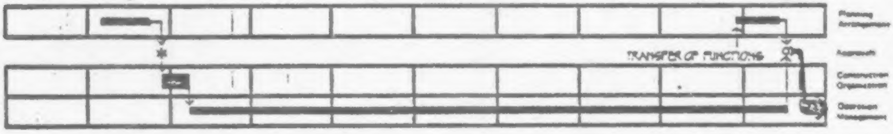
SUPPORT COMMUNITY DESIGN ELEMENT


DISTRICT
FORMATION
SPECIAL PURPOSE
SPECIFIC POWERS
LIMITED DURATION
GOVERNANCE
OCO
BOARD OF REVIEW
COMMUNITY DIRECTION COUNCIL
LICENSING AUTHORITY
VILLAGE ASSEMBLIES
SPECIAL PURPOSE COMMITTEES
ADMINISTRATOR CDC
DISTRICT DIRECTOR
JUDICIAL DISTRICT
PUBLIC RECORDS
PUBLIC SAFETY
PUBLIC HEALTH
PUBLIC LIBRARY
PLANNING STAFF
LOCAL FEDERAL + STATE OFFICES
COMMUNITY ACTIVITIES BOARD
DIRECTOR
RESIDENT CONFERENCE UNITS
PUBLIC SERVICES MANAGER
TRANSFER ACTIVITIES TO COUNTY AND LOCAL GOVERNMENT

RESOURCE DEVELOPMENT DISTRICT

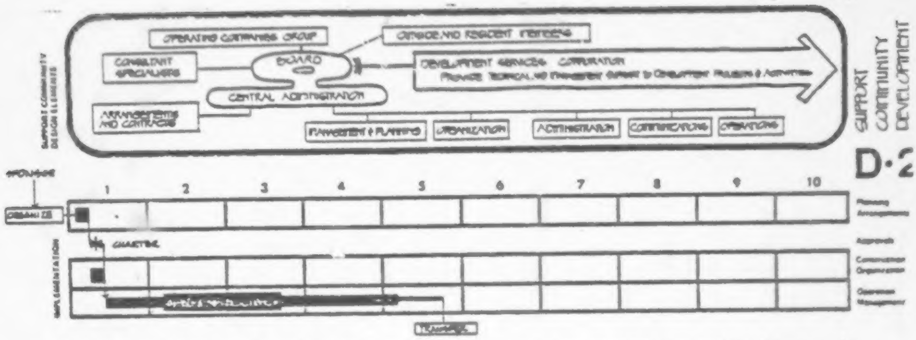
D·1

IMPLEMENTATION



PROJECT DESCRIPTION

A Resource Development District is proposed to serve as temporal special-purpose government to effectively respond to impacts of rapid industrial growth, to assist in transition from single-purpose settlement to self-directed community. This suggested special-purpose district would have taxing authority that would enable the rapid implementation of adequate services and support systems without dislocating the finances of established local governments.


SUPPORT COMMUNITY DESIGN ELEMENTS
OPERATING COMPANIES GROUP
CITIZENS AND RESIDENT INTERESTS
CONSULTANT SPECIALISTS
BOARD
DEVELOPMENT SERVICES CORPORATION
CENTRAL ADMINISTRATION
ARRANGEMENTS AND CONTRACTS
MANAGEMENT & PLANNING
ORGANIZATION
ADMINISTRATION
COMMUNICATIONS
OPERATIONS
SPONSOR
ORGANIZE
CHARTER
TRANSFER
IMPLEMENTATION
1
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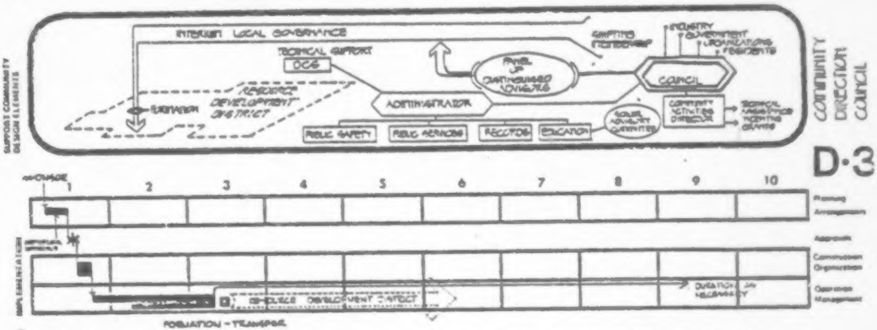
Planning Arrangements
Approvals
Construction Organization
Operation Management

SUPPORT COMMUNITY DEVELOPMENT

D·2

PROJECT DESCRIPTION The Thunder Basin Development Services Corporation is a non-profit organization introduced by the community sponsors to initiate, design and manage the processes involved in the overall development of the support community.


SUPPORT COMMUNITY DESIGN ELEMENTS
INTERIM LOCAL GOVERNANCE
TECHNICAL SUPPORT
DCS
RESOURCE DEVELOPMENT DISTRICT
ADMINISTRATOR
PANEL OF DISTINGUISHED ADVISORS
COUNCIL
INDUSTRY
GOVERNMENT
ORGANIZATIONS
RESIDENTS
COMMUNITY ACTIVITIES DIRECTOR
SENIOR ADVISORY COMMITTEE
PUBLIC SAFETY
PUBLIC SERVICES
RECORDS
EDUCATION
SPONSOR
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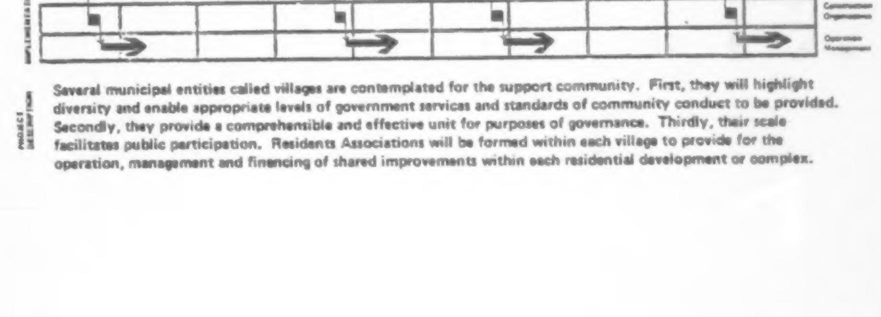
Planning Arrangements
Approvals
Construction Organization
Operation Management
RESOURCE DEVELOPMENT DISTRICT
DURATION AS NECESSARY
FORMATION - TRANSFER
IMPLEMENTATION

COMMUNITY DIRECTION COUNCIL

D·3

PROJECT DESCRIPTION The Community Direction Council will act as an assembler of all interest groups providing legitimacy and leadership for the support community as it grows and evolves into a mature and responsible settlement.


SUPPORT COMMUNITY DESIGN ELEMENTS
REGIONAL INCORPORATION
RESIDENTIAL VILLAGES
LOCAL GOVERNANCE
VILLAGE
CONTRACT PUBLIC SERVICES
PROJECT ASSOCIATIONS
SHARED FACILITIES & AMENITIES
1
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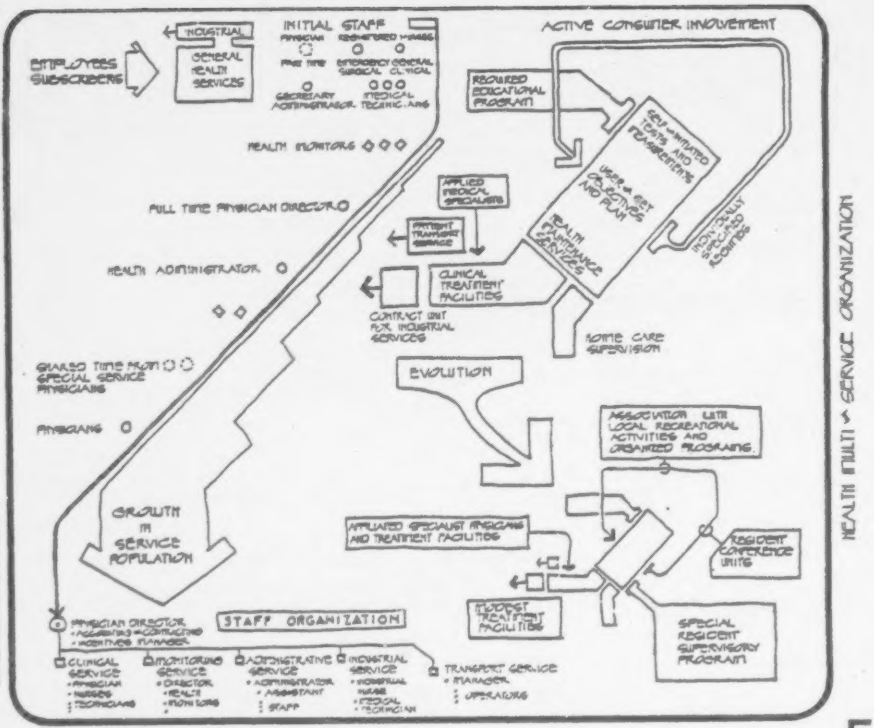
INDUSTRIAL
VILLAGE SITE
VILLAGE
Planning Arrangements
Approvals
Construction Organization
Operation Management
IMPLEMENTATION

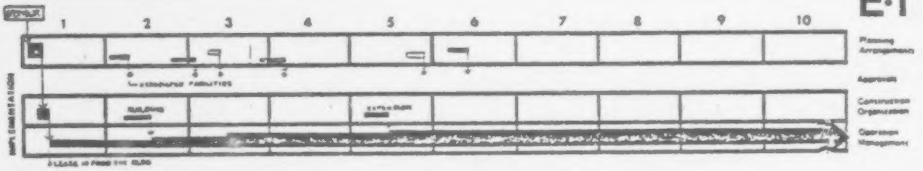
MUNICIPALITIES & ASSOCIATIONS

D·4

PROJECT DESCRIPTION Several municipal entities called villages are contemplated for the support community. First, they will highlight diversity and enable appropriate levels of government services and standards of community conduct to be provided. Secondly, they provide a comprehensible and effective unit for purposes of governance. Thirdly, their scale facilitates public participation. Residents Associations will be formed within each village to provide for the operation, management and financing of shared improvements within each residential development or complex.

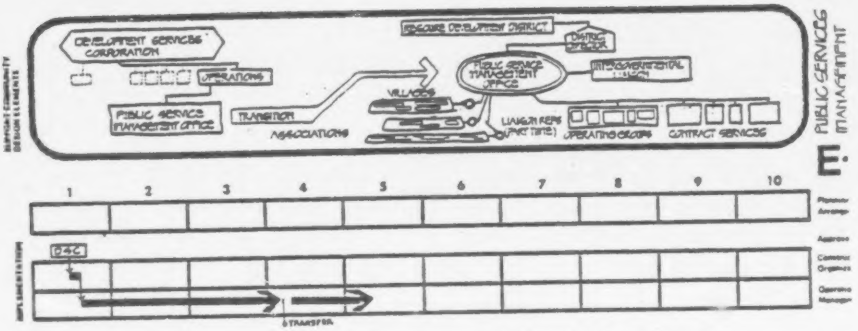

EMPLOYEES SUBSCRIBERS
INDUSTRIAL
GENERAL HEALTH SERVICES
INITIAL STAFF
PHYSICIAN
REGISTERED NURSES
PART TIME
EMERGENCY SURGICAL
GENERAL CLINICAL
SECRETARY ADMINISTRATOR
MEDICAL TECHNICIANS
HEALTH MONITORS
FULL TIME PHYSICIAN DIRECTOR
HEALTH ADMINISTRATOR
SHARED TIME FROM SPECIAL SERVICE PHYSICIANS
PHYSICIANS
GROWTH IN SERVICE POPULATION
ACTIVE CONSUMER INVOLVEMENT
REQUIRED EDUCATIONAL PROGRAM
SELF-INITIATED TESTS AND MEASUREMENTS
USER-SET OBJECTIVES AND PLAN
HEALTH MAINTENANCE SERVICES
INDIVIDUALLY SPECIFIED ROUTINES
APPLIED MEDICAL SPECIALISTS
PATIENT TRANSPORT SERVICE
CLINICAL TREATMENT FACILITIES
CONTRACT UNIT FOR INDUSTRIAL SERVICES
HOME CARE SUPERVISION
EVOLUTION
ASSOCIATION WITH LOCAL RECREATIONAL ACTIVITIES AND ORGANIZED PROGRAMS.
AFFILIATED SPECIALIST PHYSICIANS AND TREATMENT FACILITIES
RESIDENT CONFERENCE UNITS
MODEST TREATMENT FACILITIES
SPECIAL RESIDENT SUPERVISORY PROGRAM
STAFF ORGANIZATION
PHYSICIAN DIRECTOR
• ACCOUNTING • CONTRACTING
• INCENTIVES MANAGER
CLINICAL SERVICE
• PHYSICIAN
• NURSES
• TECHNICIANS
MONITORING SERVICE
• DIRECTOR
• HEALTH
• MONITORS
ADMINISTRATIVE SERVICE
• ADMINISTRATOR
• ASSISTANT
• STAFF
INDUSTRIAL SERVICE
• INDUSTRIAL NURSE
• MEDICAL
• TECHNICIAN
TRANSPORT SERVICE
• MANAGER
• OPERATORS
HEALTH MULTI - SERVICE ORGANIZATION

E·1



The health delivery system proposed for the support community is based on a user-oriented approach that stresses active participation, incident prevention, and individual education. Combining workmen's compensation and related medical concerns of employers with established benefit programs makes it feasible to finance health-oriented care as well as to provide specific traumatic care and disease treatment. Increasing the individual's involvement with specific health objectives and reducing demand for traditional clinical services will enable more efficient delivery of health care, more effectively utilizing highly-trained and specialized personnel. Federal support is available to partially finance construction and equipment as well as some organizational expenses. Establishment of programs for community-centered care of special residents can also be used to increase the availability of professional personnel.

PUBLIC SERVICES MANAGEMENT E.


SUPPORT COMMUNITY DESIGN ELEMENTS
DEVELOPMENT SERVICES CORPORATION
OPERATIONS
PUBLIC SERVICE MANAGEMENT OFFICE
TRANSITION
ASSOCIATIONS
VILLAGES
RESOURCE DEVELOPMENT DISTRICT
DISTRICT DIRECTOR
PUBLIC SERVICE MANAGEMENT OFFICE
INTERGOVERNMENTAL LIAISON
LIAISON REPS (PART TIME)
OPERATING GROUPS
CONTRACT SERVICES
1
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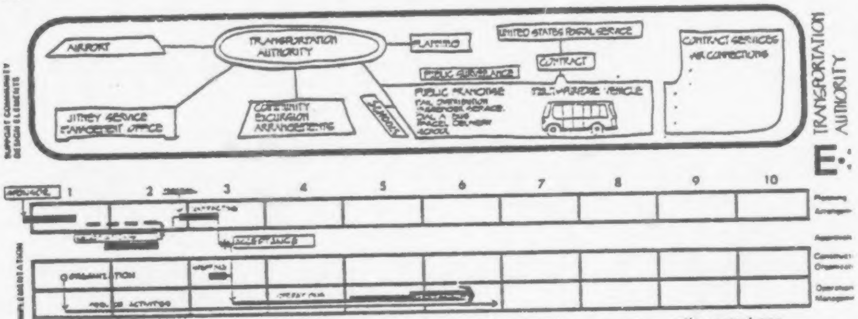
Planning Arrangements
Approval
Construction Organization
Operation Management
IMPLEMENTATION
D&C
TRANSFER

PROJECT DESCRIPTION

This office will staff and manage the organization and operation of public services during the support community's transition from private sponsorship to independent public status.

TRANSPORTATION AUTHORITY E.


SUPPORT COMMUNITY DESIGN ELEMENTS
AIRPORT
TRANSPORTATION AUTHORITY
PLANNING
UNITED STATES POSTAL SERVICE
CONTRACT
CONTRACT SERVICES
AIR CONNECTIONS
PUBLIC SURVEILLANCE
PUBLIC FRANCHISE
MULTI-PURPOSE VEHICLE
JITNEY SERVICE MANAGEMENT OFFICE
COMMUNITY EXCURSION ARRANGEMENTS
SCHOOLS
1
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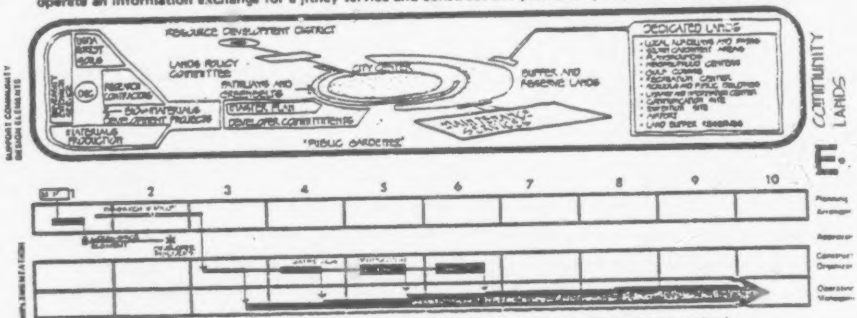
Planning Arrangements
Approval
Construction Organization
Operation Management
IMPLEMENTATION
ORGANIZATION
POLICE ACTIVITIES

PROJECT DESCRIPTION

The Transportation Authority will attempt to combine the roles of transit driver, postman, police patrolman and parcel deliveryman to effect a more efficient system. Neighborhood centers (approx. 1 per 100 residences) would serve as pick up and delivery points for people and things. Knowledge of and movement through the community would enable these men to maintain surveillance. In addition, the Authority will license and operate an information exchange for a jitney service and construct and periodically improve an airport facility.

COMMUNITY LANDS E.


SUPPORT COMMUNITY DESIGN ELEMENTS
RESOURCE DEVELOPMENT DISTRICT
LANDS POLICY COMMITTEE
PATHWAYS AND GREENBELTS
CITY CENTER
MASTER PLAN
DEVELOPER COMMITMENTS
BUFFER AND RESERVE LANDS
DEDICATED LANDS
BIO-MATERIALS DEVELOPMENT PROJECTS
MATERIALS PRODUCTION
"PUBLIC GARDENER"
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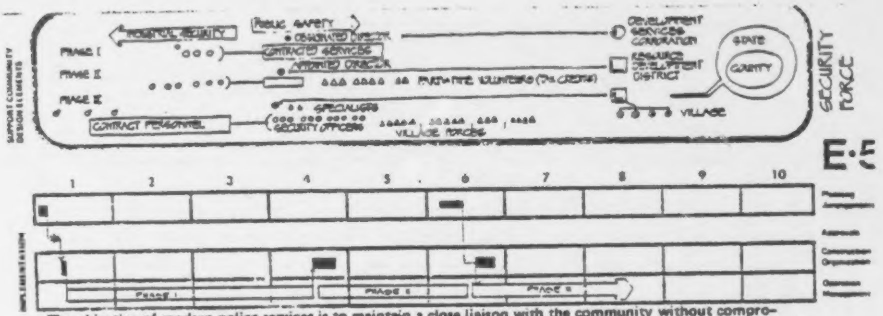
Planning Arrangements
Approval
Construction Organization
Operation Management
IMPLEMENTATION

PROJECT DESCRIPTION

Special bio-materials will be tested and developed specifically for the site of the support community in cooperation with the U.S. Forest Service. Production of the materials will precede planting in development projects and to create wind breaks. Maintenance services will be provided for all community lands by a specially-trained and equipped staff, also available for contract services to resident associations and others.


SUPPORT COMMUNITY DESIGN ELEMENTS
PUBLIC SAFETY
INDUSTRIAL SECURITY
DESIGNATED DIRECTOR
PHASE I
CONTRACTED SERVICES
APPOINTED DIRECTOR
PHASE II
PART-TIME VOLUNTEERS
PHASE III
SPECIALISTS
CONTRACT PERSONNEL
SECURITY OFFICERS
VILLAGE FORCES
DEVELOPMENT SERVICES CORPORATION
RESOURCE DEVELOPMENT DISTRICT
STATE
COUNTY
VILLAGE
SECURITY FORCE
E·5
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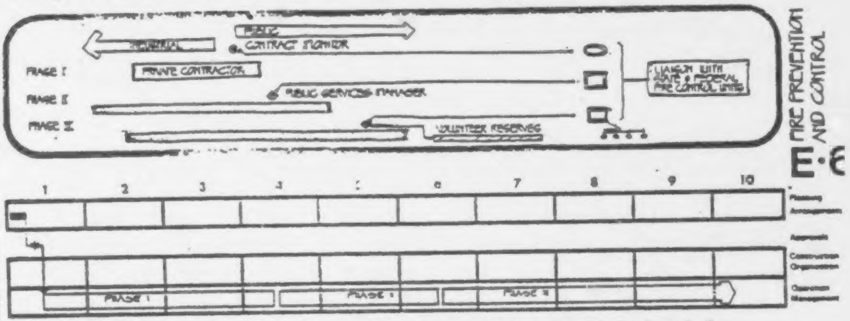
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management
PHASE I
PHASE II
PHASE III

PROJECT DESCRIPTION

The objective of modern police services is to maintain a close liaison with the community without compromising standards of professional work and training. This program calls for a small number of fully professional police officers responsible for public safety, increasing in number as the district grows, and with significant use of trained "part-time" security officers comprised of village residents in an effort to economize by sharing the expenses of industrial and town security at early stages in the development process.


SUPPORT COMMUNITY DESIGN ELEMENTS
INDUSTRIAL
PUBLIC
CONTRACT MONITOR
PHASE I
PRIVATE CONTRACTOR
PUBLIC SERVICES MANAGER
PHASE II
PHASE III
VOLUNTEER RESERVES
LIAISON WITH STATE & FEDERAL FIRE CONTROL UNITS
FIRE PREVENTION AND CONTROL
E·6
1
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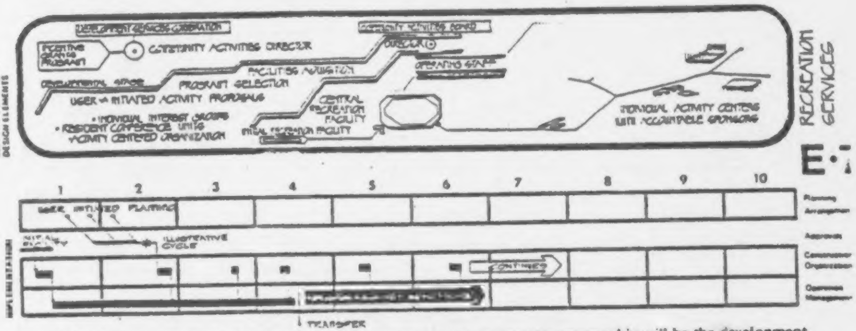
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management
PHASE I
PHASE II
PHASE III

PROJECT DESCRIPTION

Initial fire control services will be provided on a contract basis to minimize early capitalization. As the District establishes a public service base under the sponsorship of the Public Services Management Team, permanent facilities can be financed and constructed with expansion requirements provided through a district force of trained volunteers serving the special requirements of industrial facilities on a contract basis.


SUPPORT COMMUNITY DESIGN ELEMENTS
DEVELOPMENT SERVICES CORPORATION
COMMUNITY ACTIVITIES BOARD
INCENTIVE GRANTS PROGRAM
COMMUNITY ACTIVITIES DIRECTOR
DIRECTOR
OPERATING STAFF
FACILITIES ACQUISITION
DEVELOPMENTAL STAGE
PROGRAM SELECTION
USER-INITIATED ACTIVITY PROPOSALS
• INDIVIDUAL INTEREST GROUPS
• RESIDENT CONFERENCE UNITS
ACTIVITY CENTERED ORGANIZATION
CENTRAL RECREATION FACILITY
INITIAL RECREATION FACILITY
INDIVIDUAL ACTIVITY CENTERS WITH ACCOUNTABLE SPONSORS
RECREATION SERVICES
E·7
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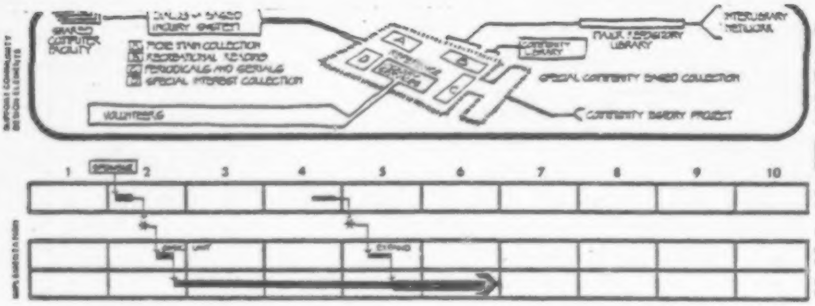
USER INITIATED PLANNING
INITIAL FACILITY
ILLUSTRATIVE CYCLE
CONTINUED
TRANSFER
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management

PROJECT DESCRIPTION

An initial instrument to set in motion the shift from company to community sponsorship will be the development and initiation of recreation projects and programs. The Community Activities Director is installed in a early phase of the development of the District to encourage the initiation of projects by residents through incentive grants, opening the possibility of funding of capital programs by providing financial management and land acquisition services, and providing contact with potential investors for public/private sponsored recreational facilities.


SHARED COMPUTER FACILITY
ON-LINE SHARED INQUIRY SYSTEM
A CORE STAFF COLLECTION
B RECREATIONAL READING
C PERIODICALS AND SERIALS
D SPECIAL INTEREST COLLECTION
VOLUNTEERS
INTERLIBRARY NETWORK
MAJOR REPOSITORY LIBRARY
COMMUNITY LIBRARY
SPECIAL COMMUNITY BASED COLLECTION
COMMUNITY HISTORY PROJECT
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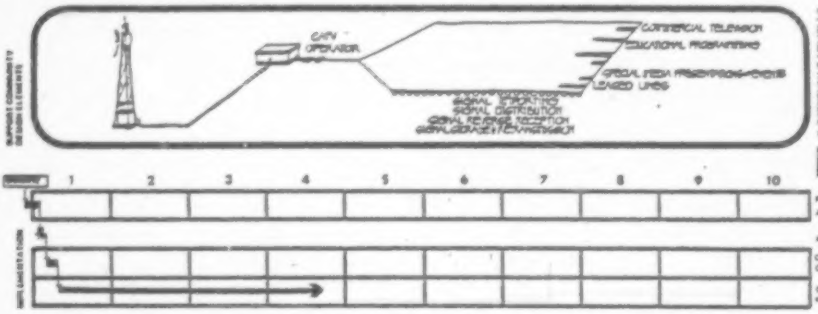
EXPAND

LIBRARY AND INFORMATION CENTER

E·8

The library will be a keystone in the development of a rural community with the breadth and magnetism of more stable, established settlements. More than a repository for books and periodicals, it will act as an information center, assisting residents in articulating their needs and documenting their history.


CATV OPERATOR
COMMERCIAL TELEVISION
EDUCATIONAL PROGRAMMING
SPECIAL MEDIA PRESENTATIONS-EVENTS
LEASED LINES
SIGNAL REPORTING
SIGNAL DISTRIBUTION
SIGNAL REVERSE RECEPTION
1
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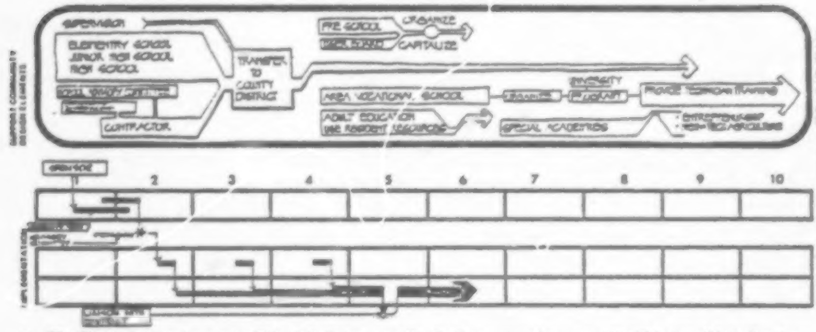
COMMUNICATIONS FACILITIES

E·9

A communications tower will be built to supply CATV franchises and others with a wide range of communication sources over facilities to be installed in concert with the telephone company. The basic function is to provide electronic equipment to import signals from remote sources, store, manipulate and retransmit them to the community.


SUPERVISION
ELEMENTARY SCHOOL
JUNIOR HIGH SCHOOL
HIGH SCHOOL
CONTRACTOR
TRANSFER TO COUNTY DISTRICT
PRE-SCHOOL
ORGANIZE
CAPITALIZE
AREA VOCATIONAL SCHOOL
UNIVERSITY
ADULT EDUCATION
USE RESIDENT RESOURCES
SPECIAL ACADEMICS
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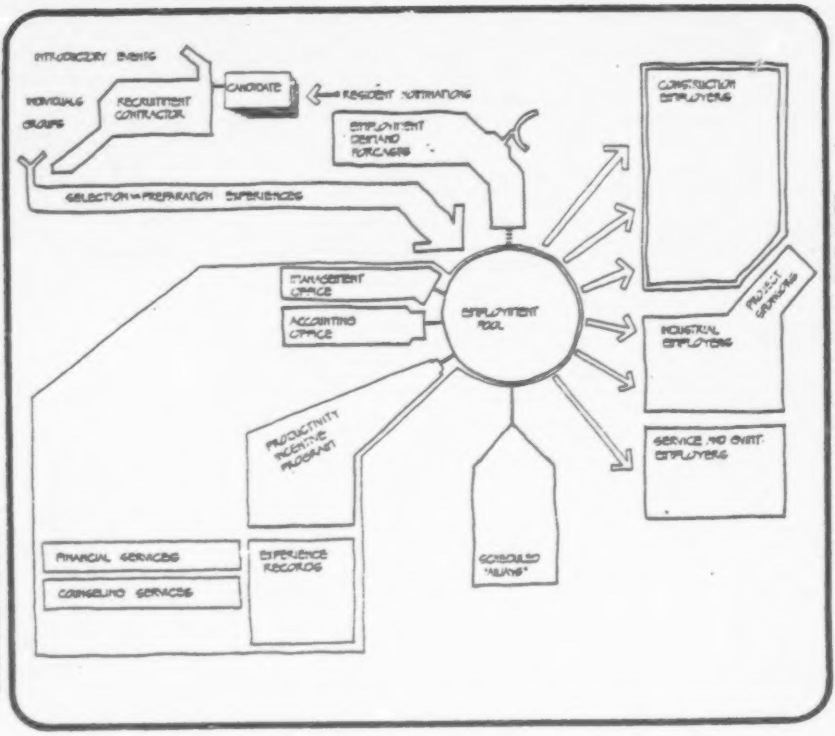
EDUCATIONAL SERVICES

E·1C

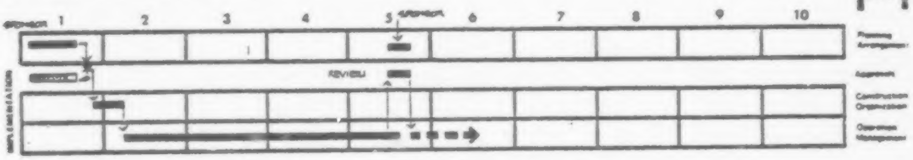
The District's school system will initially be very small. As the community grows, it will be possible to involve parents and educational professionals in a planning process. Rather than adopt a facilities planning/educational program model common to the area, they can invent a District prototype especially suited to the needs of this unusual community, e.g., one which emphasizes "career education" and makes use of the entire town as an educational resource. This approach allows for lower capitalization of facilities and more flexible patterns of growth.

TECHNICAL SERVICES CONTRACT EMPLOYER

SUPPORT COMMUNITY DESIGN ELEMENT


INTRODUCTORY EVENTS
INDIVIDUALS
GROUPS
RECRUITMENT CONTRACTOR
CANDIDATE
RESIDENT NOTIFICATIONS
EMPLOYMENT DEMAND FORECASTS
SELECTION & PREPARATION EXPERIENCES
CONSTRUCTION EMPLOYERS
MANAGEMENT OFFICE
ACCOUNTING OFFICE
EMPLOYMENT POOL
PROJECT SPONSORS
INDUSTRIAL EMPLOYERS
PRODUCTIVITY INCENTIVE PROGRAM
SERVICE AND GOVT. EMPLOYERS
FINANCIAL SERVICES
COUNSELING SERVICES
EXPERIENCE RECORDS
SCHEDULED "ALWAYS"

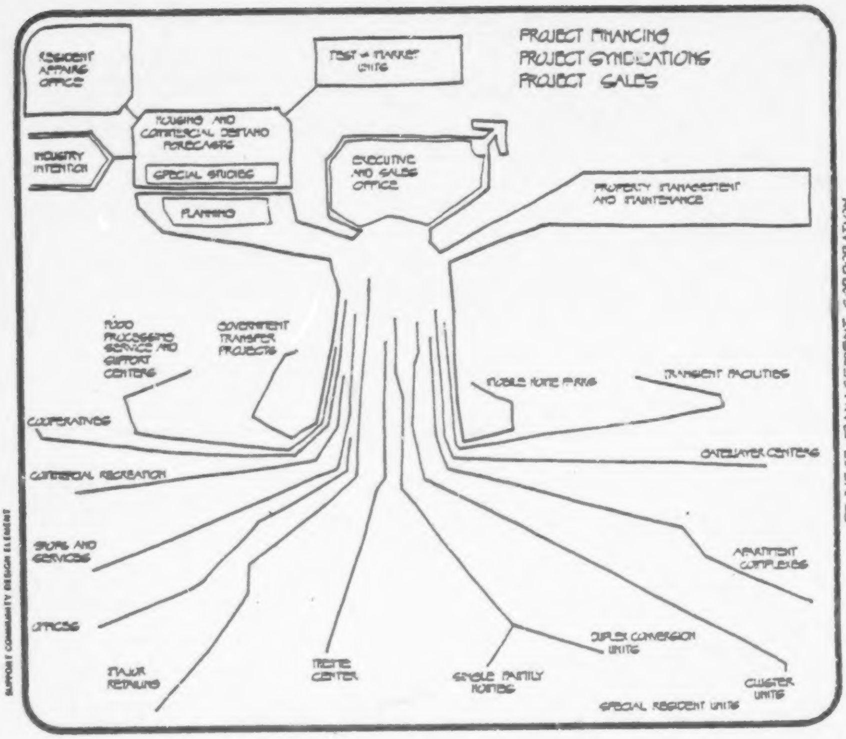
F-1



PROJECT DESCRIPTION

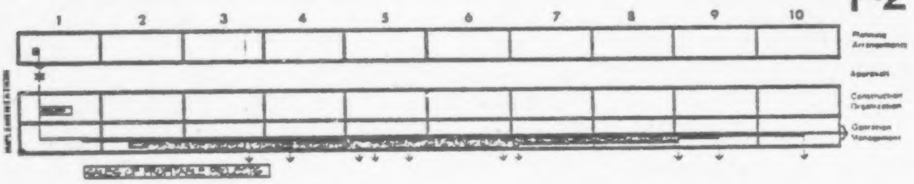
The Technical Services Contract Employer will be retained to improve the utilization of construction personnel between industrial and community development projects. Improving construction personnel utilization will reduce turnover and promote community retention of individuals who are participants in the negotiation of its style of life. This organization can be expected to reduce the effects of turnover, even though an individual comes from assignment to assignment within the community.

SUPPORT COMMUNITY DESIGN ELEMENT


RESIDENT AFFAIRS OFFICE
TEST + MARKET UNITS
PROJECT FINANCING
PROJECT SYNDICATIONS
PROJECT SALES
HOUSING AND COMMERCIAL DEMAND FORECASTS
SPECIAL STUDIES
INDUSTRY INTENTION
EXECUTIVE AND SALES OFFICE
PROPERTY MANAGEMENT AND MAINTENANCE
PLANNING
FOOD PROCESSING SERVICE AND SUPPORT CENTERS
GOVERNMENT TRANSFER PROJECTS
MOBILE HOME PARKS
TRANSIENT FACILITIES
COOPERATIVES
DAYCARE CENTERS
COMMERCIAL RECREATION
SHOPS AND SERVICES
APARTMENT COMPLEXES
OFFICES
DUPLEX CONVERSION UNITS
MAJOR RETAILING
TRADE CENTER
SINGLE FAMILY HOMES
CLUSTER UNITS
SPECIAL RESIDENT UNITS
PROJECT MANAGEMENT CORPORATION

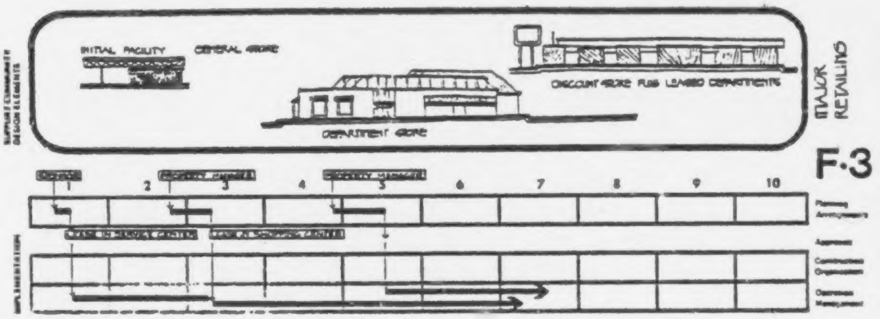
F-2

IMPLEMENTATION



PROJECT DESCRIPTION

"Porcupine" Properties Corporation will own and operate facilities constructed by major community developer(s) to establish the performance of each project and real estate investment. The executive office will seek investors with long-term interests for the projects as well as assist local residents in the purchase of units for their own use and investment.


SUPPORT COMMUNITY DESIGN ELEMENTS
INITIAL FACILITY
GENERAL STORE
DEPARTMENT STORE
DISCOUNT STORE PLUS LEASED DEPARTMENTS
MAJOR RETAILING
SPONSOR
PROPERTY MANAGER
PROPERTY MANAGER
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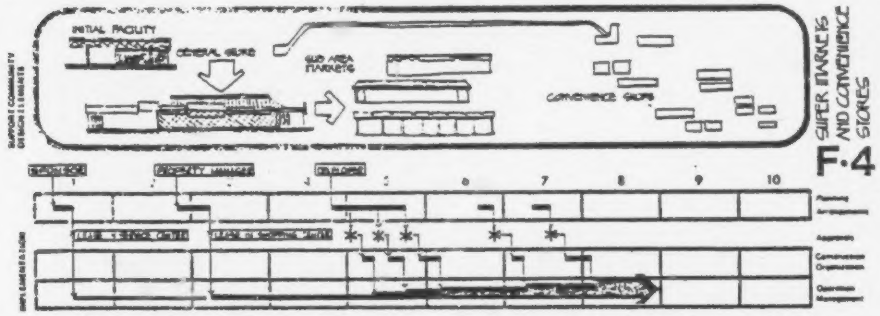
LEASE IN SERVICE CENTER
LEASE IN SHOPPING CENTER
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operations Management

F·3

PROJECT DESCRIPTION

Retailing will commence in a section of the inaugural Service Center. Later, a department store will be added to the community followed by an integrated discount center, integrating a number of related merchandisers.


SUPPORT COMMUNITY DESIGN ELEMENTS
INITIAL FACILITY
GENERAL STORE
SUB AREA MARKETS
CONVENIENCE SHOPS
SUPER MARKETS AND CONVENIENCE STORES
SPONSOR
PROPERTY MANAGER
DEVELOPER
1
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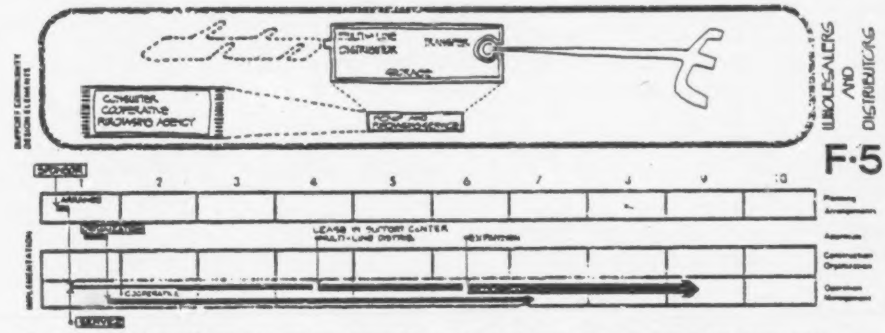
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operations Management

F·4

PROJECT DESCRIPTION

The initial provision of food and general products will be through a concessionaire contract; these responsibilities will shift over to a "general store" operated initially by the concessionaire and later differentiated into satellite, sub-markets as required by the expension needs of the community. As village emerge, the smaller satellite shops will be joined by other convenience shops completing the pattern.


SUPPORT COMMUNITY DESIGN ELEMENTS
MULTI-LINE DISTRIBUTOR
TRANSFER
STORAGE
CONSUMER COOPERATIVE PURCHASING AGENCY
WHOLESALERS AND DISTRIBUTORS
SPONSOR
1
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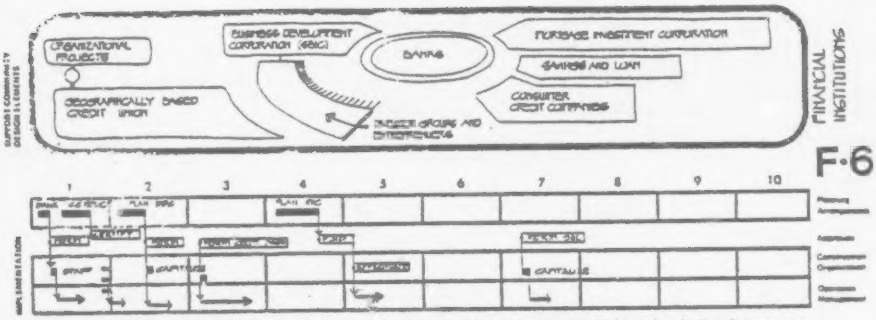
LEASE IN SUPPORT CENTER MULTI-LINE DISTRIB.
COOPERATIVE
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operations Management

F·5

PROJECT DESCRIPTION

Initial operations will involve a specialized drayage firm with limited capecities for representing buyers and small stores in the support community. Over time, a multi-line distributor, as well as warehousers and transfer operators will evolve. A consumer cooperative will be formed to make special purchases and increase access of consumers to a variety of suppliers.


SUPPORT COMMUNITY DESIGN ELEMENTS
ORGANIZATIONAL PROJECTS
GEOGRAPHICALLY BASED CREDIT UNION
BUSINESS DEVELOPMENT CORPORATION (SBIC)
INSIDER GROUPS AND ENTREPRENEURS
BANKS
MORTGAGE INVESTMENT CORPORATION
SAVINGS AND LOAN
CONSUMER CREDIT COMPANIES
FINANCIAL INSTITUTIONS
1
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9
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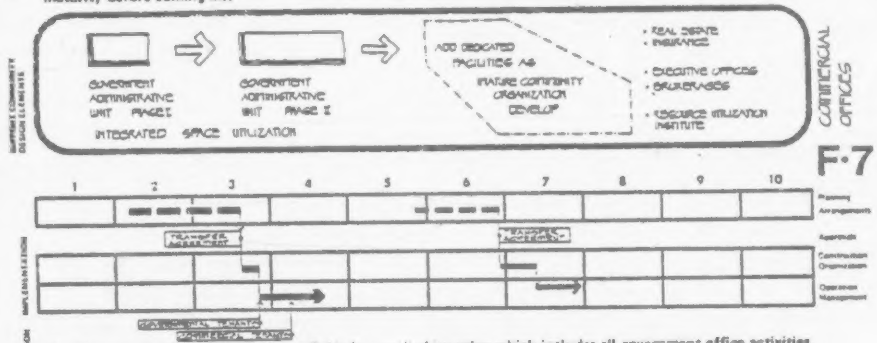
PLAN PRG
PLAN PRG
STAFF
CAPITALIZE
CAPITALIZE
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management
PROJECT DESCRIPTION

F·6

A full range of financial institutions will be needed to promote local entrepreneurship and to induce investment in the future of the community by company personnel. The Business Development Corporation will provide incentive grants (e.g., 10%) to provide leverage needed to finance activities with marginal status (that is, where they are needed by the community but where business would prefer to wait for the community to grow to maturity before coming in).


SUPPORT COMMUNITY DESIGN ELEMENTS
GOVERNMENT ADMINISTRATIVE UNIT PHASE I
GOVERNMENT ADMINISTRATIVE UNIT PHASE II
INTEGRATED SPACE UTILIZATION
ADD DEDICATED FACILITIES AS MATURE COMMUNITY ORGANIZATION DEVELOP
• REAL ESTATE
• INSURANCE
• EXECUTIVE OFFICES
• BROKERAGES
• RESOURCE UTILIZATION INSTITUTE
COMMERCIAL OFFICES
1
2
3
4
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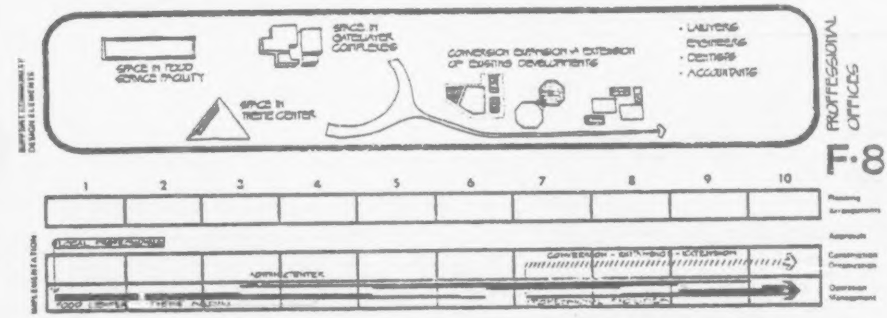
7
8
9
10
TRANSFER AGREEMENT
TRANSFER AGREEMENT
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management
GOVERNMENTAL TENANTS
COMMERCIAL TENANTS
PROJECT DESCRIPTION

F·7

The first commercial offices will be available in a unified complex which includes all government office activities. As the community business needs diversify and government activities grow, governmental operations can acquire the initial office buildings and private organizations can finance new office construction.


SUPPORT COMMUNITY DESIGN ELEMENTS
SPACE IN FOOD SERVICE FACILITY
SPACE IN GATEWAY COMPLEXES
SPACE IN THEME CENTER
CONVERSION EXPANSION & EXTENSION OF EXISTING DEVELOPMENTS
• LAWYERS
ENGINEERS
• DENTISTS
• ACCOUNTANTS
PROFESSIONAL OFFICES
1
2
3
4
5
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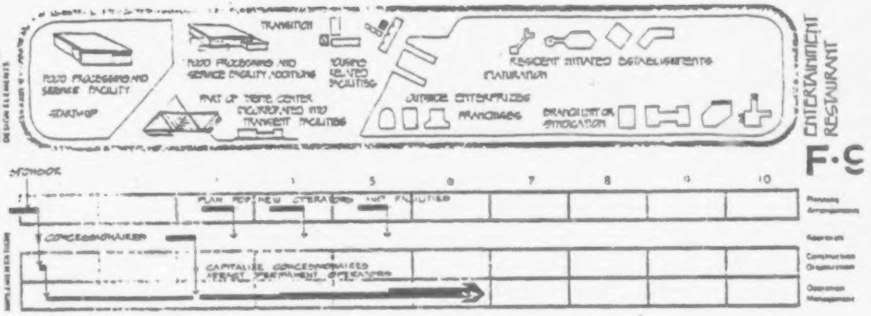
7
8
9
10
LOCAL PROFESSIONALS
CONVERSION - EXPANSION - EXTENSION
ADMIN CENTER
FOOD SERVICE
THEME AREA
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management
PROJECT DESCRIPTION

F·8

Rather than have a center for professional services and to encourage extensive paraprofessional activities, space will be reserved for medical, dental, financial and other personal and technical services in the heart of the community (e.g., in the theme center, or in gateway complexes). As the community grows, space will be added to these small service sites as needed, keeping their scale small enough to provide each segment of the settlement with some contact with these stabilizing activities.


SUPPORT COMMUNITY DESIGN ELEMENTS
FOOD PROCESSING AND SERVICE FACILITY
START-UP
FOOD PROCESSING AND SERVICE FACILITY ADDITIONS
TRANSITION
PART OF THEME CENTER INCORPORATED INTO TRANSIENT FACILITIES
TOURIST RELATED FACILITIES
RESIDENT INITIATED ESTABLISHMENTS
MATURATION
OUTSIDE ENTERPRIZES
FRANCHISES
BRANCH UNIT OR SYNDICATION
IMPLEMENTATION
GROUNDBREAK
5
6
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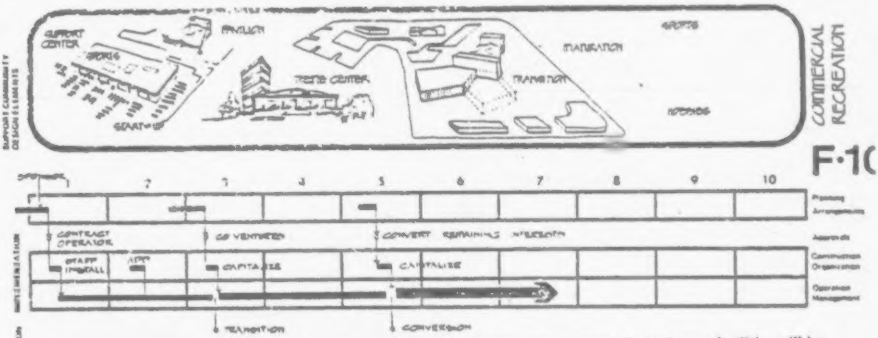
8
10
PLAN FOR NEW OPERATIONS AND FACILITIES
CONCESSIONAIRES
CAPITALIZE CONCESSIONAIRES
ATTRACT PERMANENT OPERATIONS
Planning Arrangements
Approvals
Construction Organization
Operation Management

ENTERTAINMENT RESTAURANT

F·9

PROJECT DESCRIPTION

The growth of restaurant and entertainment facilities is planned from an initial occupancy in the food processing and service facility to operations in the theme center and in residentially-related locations in the first two years to the introduction of both internally and externally initiated operations beginning in the third year.


SUPPORT COMMUNITY DESIGN ELEMENTS
SUPPORT CENTER
SPORTS
START-UP
PAVILION
THEME CENTER
SPORTS
MATURATION
TRANSITION
INDOORS
IMPLEMENTATION
GROUNDBREAK
1
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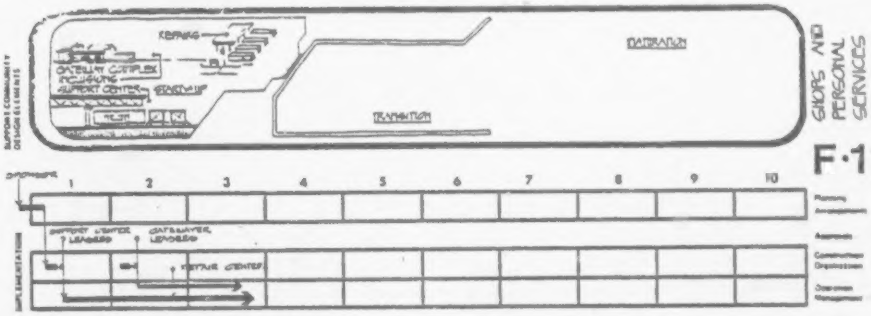
9
10
CONTRACT OPERATOR
CO-VENTURES
CONVERT REMAINING INTERIORS
STAFF INSTALL
APPT
CAPITALIZE
CAPITALIZE
TRANSITION
CONVERSION
Planning Arrangements
Approvals
Construction Organization
Operation Management

COMMERCIAL RECREATION

F·1

PROJECT DESCRIPTION

Commercial recreation will center in the theme center during the first year, although limited game facilities will be available in the support center from the start of construction. The transitional period will find bowling, billiards, archery, ice skating and other sports being introduced, as well as hobby groups forming around commercial centers.


SUPPORT COMMUNITY DESIGN ELEMENTS
RETAIL
GATEWAY COMPLEX INCLUDING
SUPPORT CENTER
START-UP
MATURATION
TRANSITION
IMPLEMENTATION
GROUNDBREAK
1
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SUPPORT CENTER LEASED
GATEWAYER LEASED
RETAIL CENTER
Planning Arrangements
Approvals
Construction Organization
Operation Management

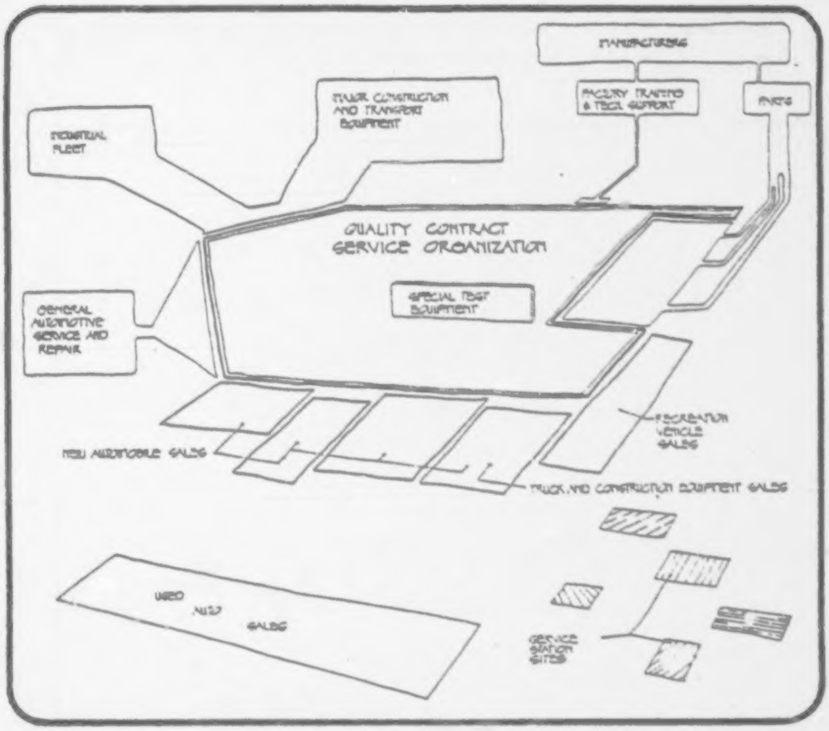
SHOPS AND PERSONAL SERVICES

F·1

PROJECT DESCRIPTION

Shops and personal services will initially operate out of special mobile units in the service and support centers and from dual-purpose units in the gatewayer complexes. Independent facilities associated with shopping and market activities will develop during the transitional period leading to a full complement of shops and services, many initiated by residents, as the community matures.

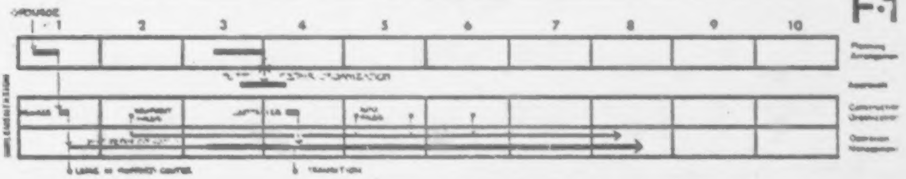
SUPPORT COMMUNITY DESIGN ELEMENT


MANUFACTURING
FACTORY TRAINING & TECH. SUPPORT
PARTS
MAJOR CONSTRUCTION AND TRANSPORT EQUIPMENT
INDUSTRIAL FLEET
QUALITY CONTRACT SERVICE ORGANIZATION
SPECIAL TEST EQUIPMENT
GENERAL AUTOMOTIVE SERVICE AND REPAIR
NEW AUTOMOBILE SALES
RECREATION VEHICLE SALES
TRUCK AND CONSTRUCTION EQUIPMENT SALES
USED AUTO SALES
SERVICE STATION SITES

AUTOMOTIVE SALES AND SERVICE

F·1

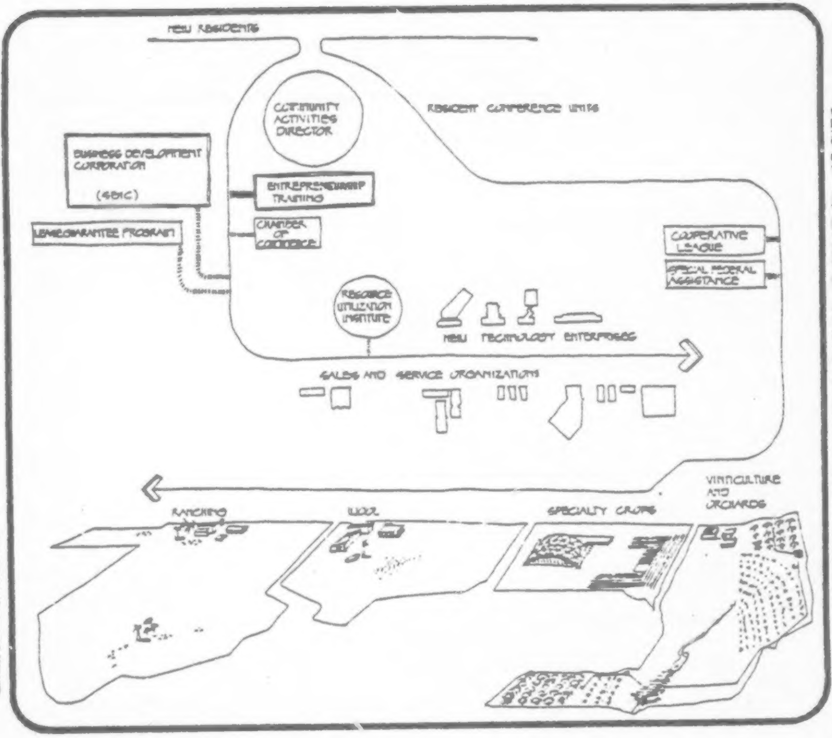
IMPLEMENTATION



PROJECT DESCRIPTION

An automotive and heavy machinery service organization will be established initially to serve construction contractors and construction personnel. By aggregating demand, it should be possible to provide trained mechanics using diagnostic and labor-saving equipment. Typically, skilled mechanics are either attracted to more lucrative construction trade assignments with some remaining mechanics, or spread between several independent construction organizations, and few of questionable skill left to serve automobile owners.

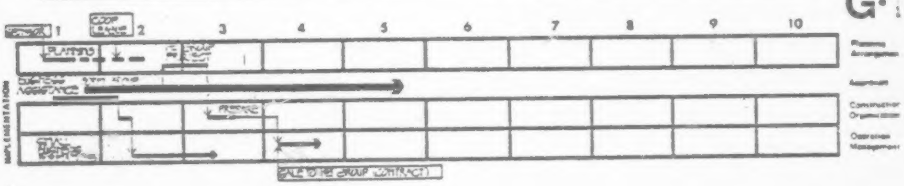
SUPPORT COMMUNITY DESIGN ELEMENT


NEW RESIDENTS
COMMUNITY ACTIVITIES DIRECTOR
RESIDENT CONFERENCE UNITS
BUSINESS DEVELOPMENT CORPORATION (SBIC)
ENTREPRENEURSHIP TRAINING
CHAMBER OF COMMERCE
LEASE GUARANTEE PROGRAM
COOPERATIVE LEAGUE
SPECIAL FEDERAL ASSISTANCE
RESOURCE UTILIZATION INSTITUTE
NEW TECHNOLOGY ENTERPRISES
SALES AND SERVICE ORGANIZATIONS
RANCHING
WOOL
SPECIALTY CROPS
VINICULTURE AND ORCHARDS

COOPERATIVES AND BUSINESS FORMATION GROUPS

G·1

IMPLEMENTATION

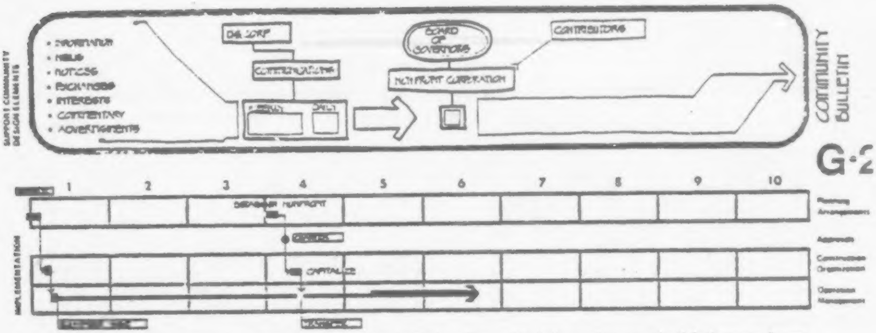


PROJECT DESCRIPTION

The community activities office in conjunction with other local organizations, and utilizing where possible technical assistance and information from nation-wide association offices, will help individual residents and resident conference units organize and capitalize businesses and initiate cooperatives. Special seminars and schools will be conducted as demand is focused to provide training in particular skills. Attempts will be made to mobilize both local and outside expertise to assist individuals and groups move ahead with their ideas.

COMMUNITY BULLETIN

G·2


SUPPORT COMMUNITY DESIGN ELEMENTS
• INFORMATION
• NEWS
• NOTICES
• EXCHANGES
• INTERESTS
• COMMENTARY
• ADVERTISEMENTS
CONTRIBUTORS
BOARD OF GOVERNORS
NON PROFIT CORPORATION
DAILY
IMPLEMENTATION
1
2
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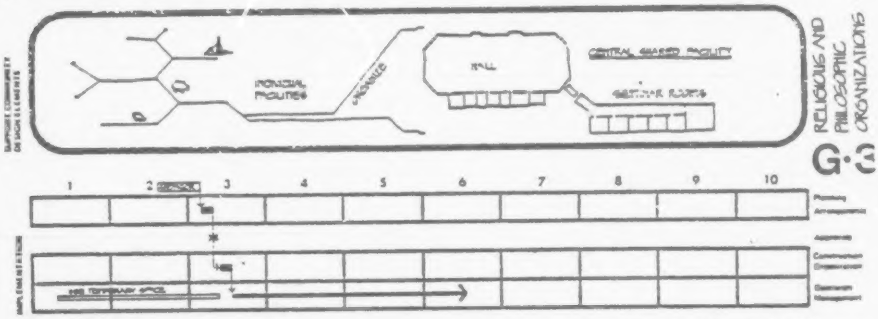
NON PROFIT
CAPITALIZE
Planning Arrangements
Approvals
Construction Organization
Operation Management

PROJECT DESCRIPTION

Initially a weekly, and later a daily, the community bulletin will provide information on scheduled events, items for sale or wanted, and commentary on what's happening and being discussed in the community as a way of shaping and reinforcing positive actions.

RELIGIOUS AND PHILOSOPHIC ORGANIZATIONS

G·3


SUPPORT COMMUNITY DESIGN ELEMENTS
INDIVIDUAL FACILITIES
ORGANIZE
HALL
CENTRAL SHARED FACILITY
SEMINAR ROOMS
IMPLEMENTATION
1
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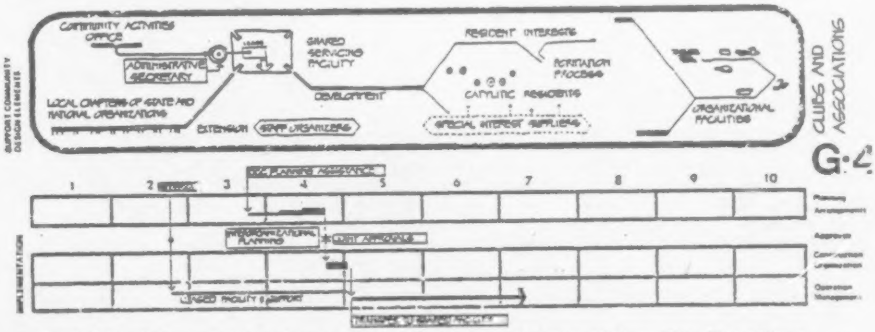
TEMPORARY SPACE
Planning Arrangements
Approvals
Construction Organization
Operation Management

PROJECT DESCRIPTION

A shared facility for religious groups and other community groups ranging from yoga to numismology will be built. Once groups have secured a stable membership with sufficient commitment, possibly with aid from their national groups, they will build individual facilities.

CLUBS AND ASSOCIATIONS

G·4


SUPPORT COMMUNITY DESIGN ELEMENTS
COMMUNITY ACTIVITIES OFFICE
ADMINISTRATIVE SECRETARY
LEASE
SHARED SERVICING FACILITY
LOCAL CHAPTERS OF STATE AND NATIONAL ORGANIZATIONS
EXTENSION
STAFF ORGANIZERS
DEVELOPMENT
RESIDENT INTERESTS
FORMATION PROCESS
CATALYTIC RESIDENTS
SPECIAL INTEREST SUPPLIERS
ORGANIZATIONAL FACILITIES
IMPLEMENTATION
1
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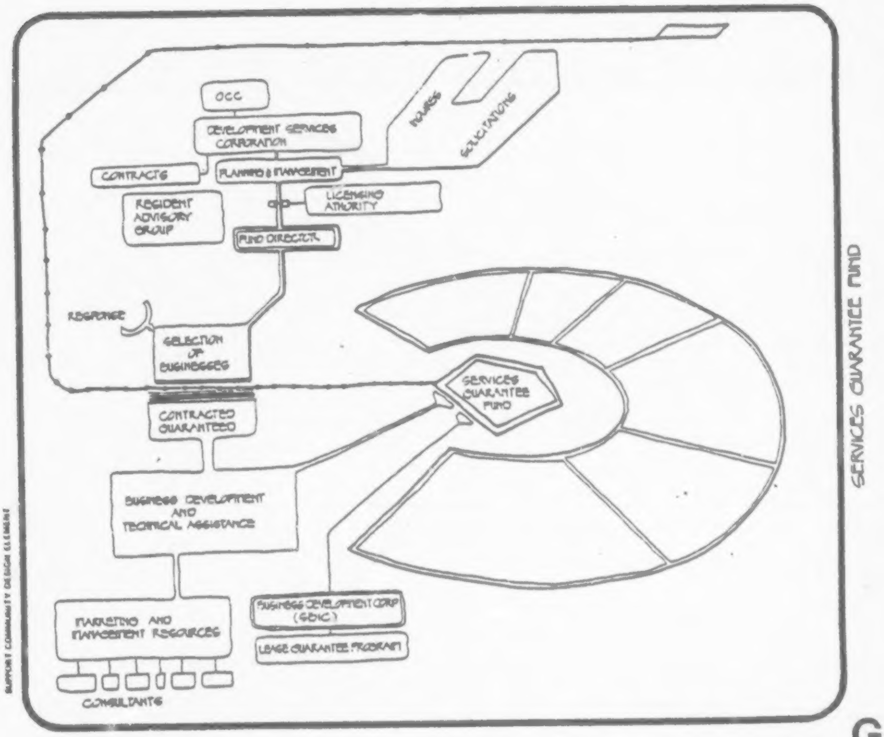
PLANNING ASSISTANCE
INTERORGANIZATIONAL PLANNING
LEASED FACILITY SUPPORT
Planning Arrangements
Approvals
Construction Organization
Operation Management

PROJECT DESCRIPTION

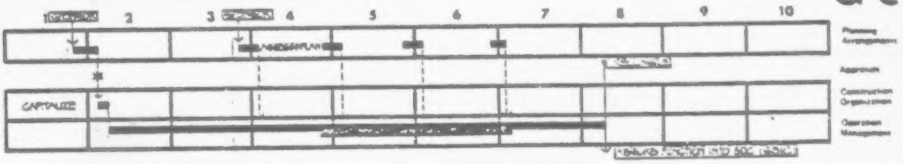
An administrative secretary in leased space will be provided to serve clubs and associations. This office will keep records and membership lists, notify members of meetings and other events, and prepare materials for distribution. This service might be expected to lead to the construction of a shared facility as well as to support the growth of clubs or associations who would build their own facilities.

SUPPORT COMMUNITY DESIGN ELEMENT


OCC
DEVELOPMENT SERVICES CORPORATION
CONTRACTS
PLANNING & MANAGEMENT
INQUIRIES
SOLICITATIONS
RESIDENT ADVISORY GROUP
LICENSING AUTHORITY
FUND DIRECTOR
RESPONSE
SELECTION OF BUSINESSES
SERVICES GUARANTEE FUND
CONTRACTED GUARANTEED
BUSINESS DEVELOPMENT AND TECHNICAL ASSISTANCE
MARKETING AND MANAGEMENT RESOURCES
CONSULTANTS
BUSINESS DEVELOPMENT CORP (SDIC)
LEASE GUARANTEE PROGRAM
SERVICES GUARANTEE FUND

G·5

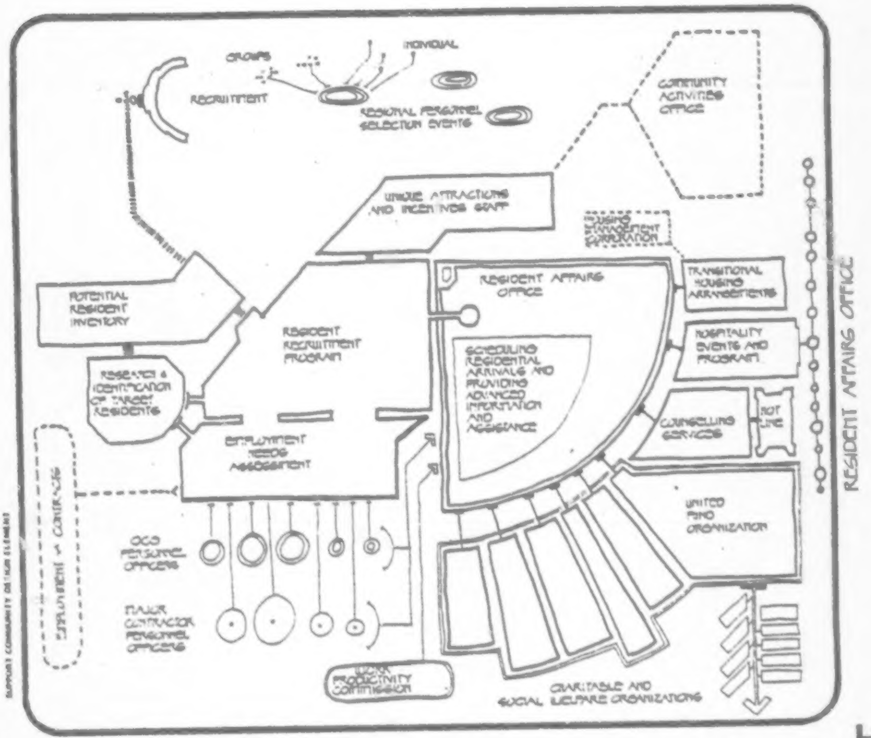
IMPLEMENTATION



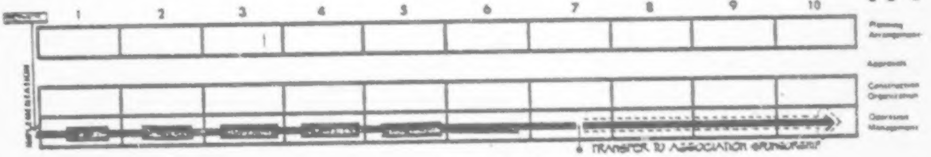
PROJECT DESCRIPTION

The Services Guarantee Fund is established to attract services and suppliers to the support community at a point in the community s growth when it may seem, using national averages and normal standards, that there is not sufficient market support. The Fund conducts studies of the evolving support community market and maintains contact with consumers so that the likely performance of new enterprises in this unique situation can be judged. Contracts guaranteeing a particular level of revenues from operations will be made with selected enterprises which will also provide for the sharing of revenues above the guaranteed level. Most agreements will be multi-year contracts to provide some profit potential as well as risk assumption.

SUPPORT COMMUNITY DESIGN ELEMENT


GROUPS
INDIVIDUAL
RECRUITMENT
REGIONAL PERSONNEL SELECTION EVENTS
COMMUNITY ACTIVITIES OFFICE
UNIQUE ATTRACTIONS AND INCENTIVES STAFF
HOUSING MANAGEMENT CORPORATION
POTENTIAL RESIDENT INVENTORY
RESIDENT RECRUITMENT PROGRAM
RESIDENT AFFAIRS OFFICE
TRANSITIONAL HOUSING ARRANGEMENTS
HOSPITALITY EVENTS AND PROGRAM
RESEARCH & IDENTIFICATION OF TARGET RESIDENTS
SCHEDULING RESIDENTIAL ARRIVALS AND PROVIDING ADVANCED INFORMATION AND ASSISTANCE
COUNSELLING SERVICES
HOT LINE
EMPLOYMENT NEEDS ASSESSMENT
EMPLOYMENT + CONTRACTS
UNITED FUND ORGANIZATION
OCS PERSONNEL OFFICERS
MAJOR CONTRACTOR PERSONNEL OFFICERS
WORK PRODUCTIVITY COMMISSION
CHARITABLE AND SOCIAL WELFARE ORGANIZATIONS
RESIDENT AFFAIRS OFFICE

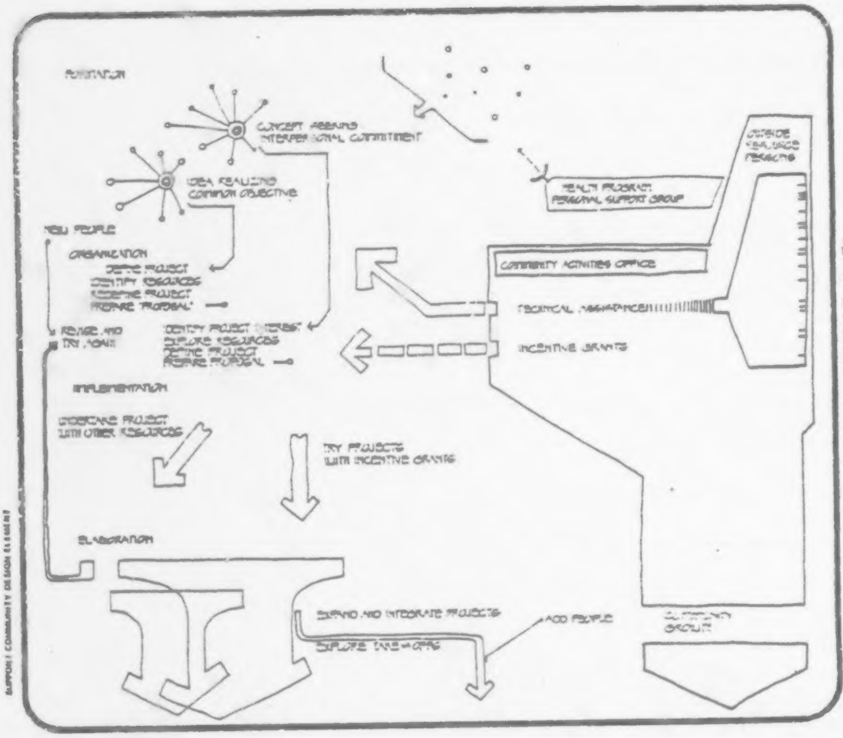
H·1



PROJECT DESCRIPTION

The Resident Affiars Office is designed to first recruit and then serve residents of the support community with functions occasionally needed by residents until they become institutionalized in service organizations, charities, and other community groups or are no longer required. The resident recruitment program will work with both industrial and construction employers to establish unique attractions and incentives and conduct research to identify areas for recruitment efforts. The office will work with unions, personal associations and resident workers to establish an inventory of potential residents with some interest or association with the support community. A local work productivity commission will be established to prepare recommendations for major employers and service suppliers on ways to improve organization of work or design of jobs to raise productivity.

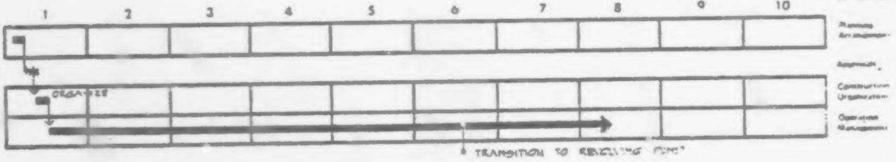
SUPPORT COMMUNITY DESIGN ELEMENT


FORMATION
CONCEPT REGARDING INTERPERSONAL COMMITMENT
IDEA REALIZING COMMON OBJECTIVE
NEW PEOPLE
ORGANIZATION
DEFINE PROJECT
IDENTIFY RESOURCES
REDEFINE PROJECT
PREPARE PROPOSAL
REVISE AND TRY AGAIN
IDENTIFY PROJECT INTEREST
EXPLORE RESOURCES
DEFINE PROJECT
PREPARE PROPOSAL
IMPLEMENTATION
UNDERTAKE PROJECT WITH OTHER RESOURCES
TRY PROJECTS WITH INCENTIVE GRANTS
ELABORATION
EXPAND AND INTEGRATE PROJECTS
EXPLORE TAKE-OFFS
ADD PEOPLE
COMMUNITY GROUP
OUTSIDE RESOURCE PERSONS
HEALTH PROGRAM PERSONAL SUPPORT GROUP
COMMUNITY ACTIVITIES OFFICE
TECHNICAL ASSISTANCE
INCENTIVE GRANTS

RESIDENT CONFERENCE UNITS

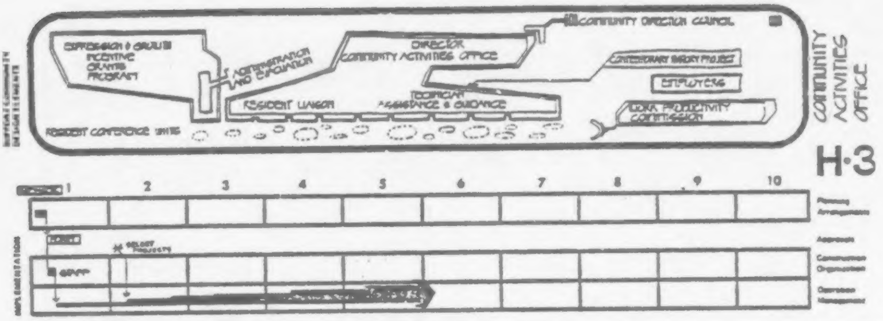
H·2

IMPLEMENTATION



PROJECT DESCRIPTION

Resident Conference Units (RCU) are formed from residents with similar interests and some shared purposes and mutual consequences. The purposes of these groups are to provide a reference group, interpersonal support, and sense of connectedness to residents. Requirements to join or form groups for joint-achievement of health objectives will provide initial impetus for organization of RCU's. RCU's will compete with proposals for technical assistance and community incentive grants that will enable them to take on larger and more significant projects than they could independently finance.


SUPPORT COMMUNITY DESIGN ELEMENTS
EXPRESSION & GROUP INCENTIVE GRANTS PROGRAM
ADMINISTRATION AND EVALUATION
DIRECTOR COMMUNITY ACTIVITIES OFFICE
COMMUNITY DIRECTION COUNCIL
CONTEMPORARY HISTORY PROJECT
EMPLOYERS
RESIDENT LIAISON
TECHNICAL ASSISTANCE & GUIDANCE
LOCAL PRODUCTIVITY COMMISSION
RESIDENT CONFERENCE UNITS
IMPLEMENTATION
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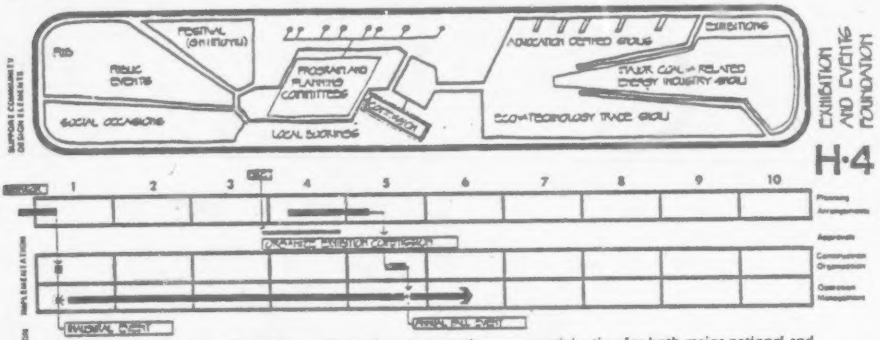
SELECT PROJECTS
STAFF
Planning Arrangements
Approvals
Construction Organization
Operation Management

COMMUNITY ACTIVITIES OFFICE

H·3

PROJECT DESCRIPTION

The Community Activities Office will act as a liaison between residents, employes, and forming government organizations. The Office will administer and evaluate the incentive grants program and supply or arrange technical assistance for requesting Resident Conference Units. The Office will also supervise the Community History Project.


SUPPORT COMMUNITY DESIGN ELEMENTS
FAIR
PUBLIC EVENTS
FESTIVAL (CHAUTAUQUA)
SOCIAL OCCASIONS
PROGRAM AND PLANNING COMMITTEES
LOCAL SPONSORS
CONTRIBUTION
ADVOCATION CENTERED GROUPS
EXHIBITIONS
MAJOR COAL - RELATED ENERGY INDUSTRY GROUP
ECO-ARCHITECTURE TECHNOLOGY TRADE GROUP
IMPLEMENTATION
1
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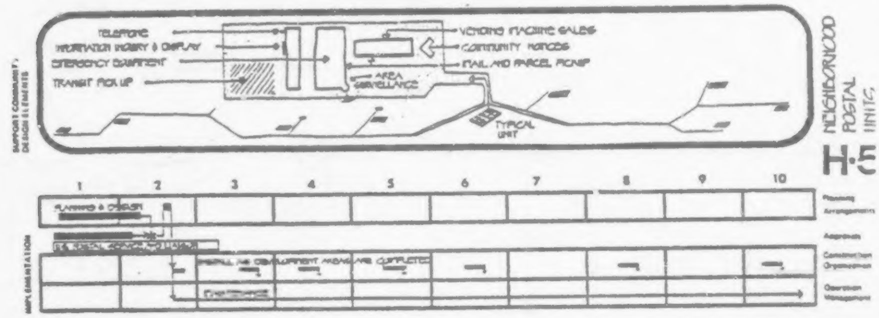
INAUGURAL EVENT
ANNUAL FALL EVENT
Planning Arrangements
Approvals
Construction Organization
Operation Management

EXHIBITION AND EVENTS FOUNDATION

H·4

PROJECT DESCRIPTION

The Exhibition and Events Foundation will obtain support and arrange participation for both major national and smaller local exhibitions, as well as sponsoring community events. Local committees will initiate planning and programming for each activity and will endorse Foundation support.


SUPPORT COMMUNITY DESIGN ELEMENTS
TELEPHONE
INFORMATION INQUIRY & DISPLAY
EMERGENCY EQUIPMENT
TRANSIT PICK UP
VENDING MACHINE SALES
COMMUNITY NOTICES
MAIL AND PARCEL PICKUP
AREA SURVEILLANCE
TYPICAL UNIT
IMPLEMENTATION
1
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PLANNING & DESIGN
U.S. POSTAL SERVICE
INSTALL AS DEVELOPMENT AREAS ARE COMPLETED
Planning Arrangements
Approvals
Construction Organization
Operation Management

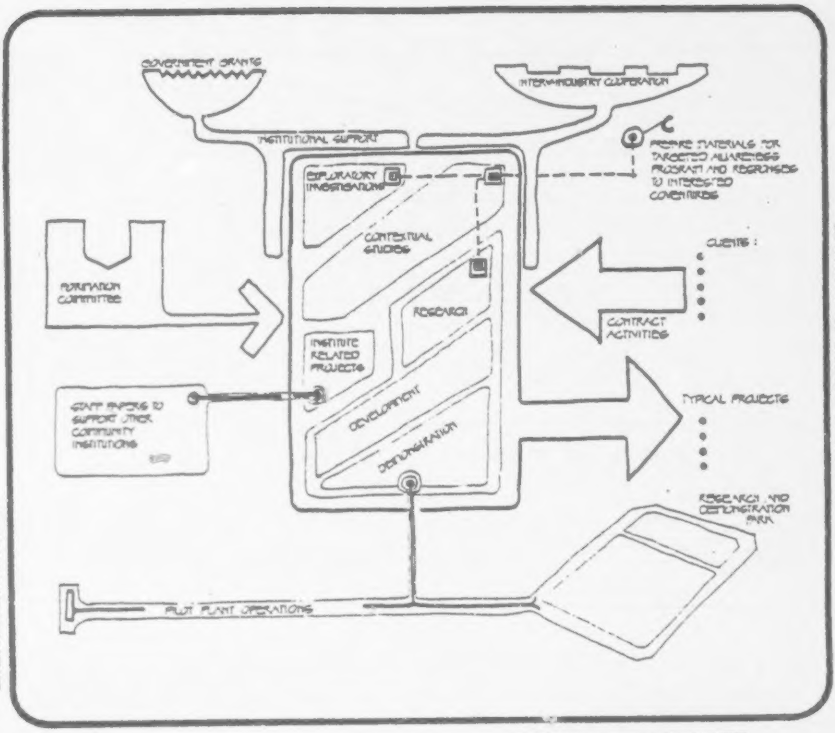
NEIGHBORHOOD POSTAL UNITS

H·5

PROJECT DESCRIPTION

Multi-service units to serve as a point for postal pick-up, public information, transportation services, community surveillance, and emergency equipment storage will be located in the community at a ratio averaging one per hundred dwelling units.

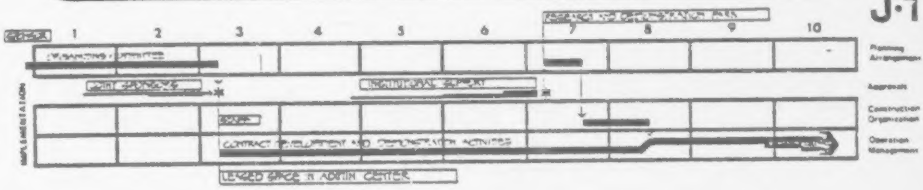
SUPPORT COMMUNITY DESIGN ELEMENT


GOVERNMENT GRANTS
INTER-INDUSTRY COOPERATION
INSTITUTIONAL SUPPORT
EXPLORATORY INVESTIGATIONS
PREPARE MATERIALS FOR TARGETED AWARENESS PROGRAM AND RESPONSES TO INTERESTED COMPANIES
CONTEXTUAL STUDIES
CLIENTS :
FORMATION COMMITTEE
RESEARCH
CONTRACT ACTIVITIES
INSTITUTE RELATED PROJECTS
STAFF PAPERS TO SUPPORT OTHER COMMUNITY INSTITUTIONS
DEVELOPMENT
TYPICAL PROJECTS
DEMONSTRATION
RESEARCH AND DEMONSTRATION PARK
PILOT PLANT OPERATIONS

RESOURCE UTILIZATION INSTITUTE

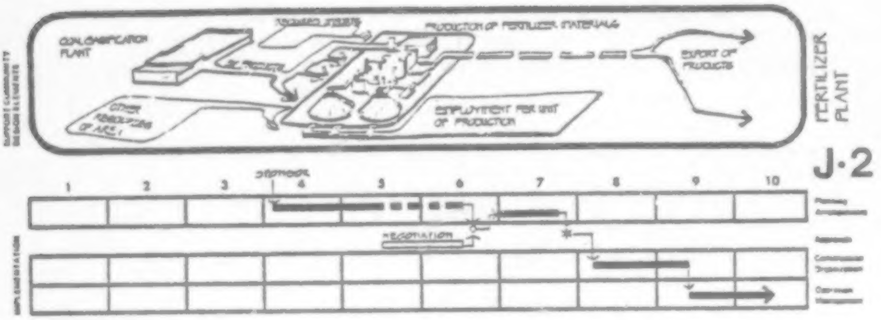
J·1

IMPLEMENTATION



PROJECT DESCRIPTION

The Resource Utilization Institute will be organized to undertake engineering studies and demonstration programs to improve the utilization of coal and related resources of the Great Plains.


SUPPORT COMMUNITY DESIGN ELEMENTS
COAL GASIFICATION PLANT
BY-PRODUCTS
PRODUCTION OF FERTILIZER MATERIALS
OTHER RESOURCES OF AREA
EMPLOYMENT PER UNIT OF PRODUCTION
EXPORT OF PRODUCTS
FERTILIZER PLANT
SPONSOR
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9
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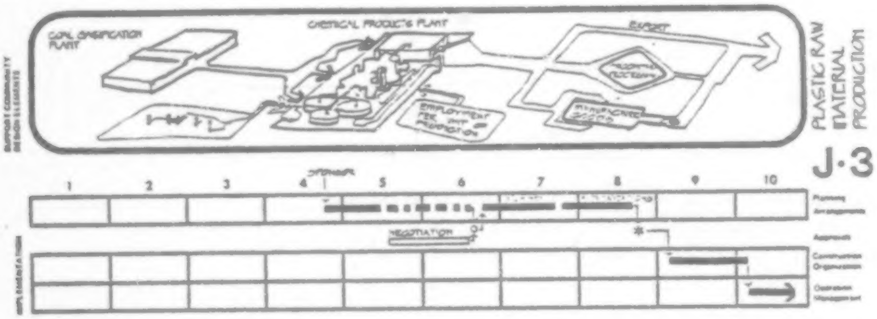
NEGOTIATION
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management

J·2

PROJECT DESCRIPTION

Location of a fertilizer plant to utilize gasification by-products will be sought.


SUPPORT COMMUNITY DESIGN ELEMENTS
COAL GASIFICATION PLANT
CHEMICAL PRODUCTS PLANT
EXPORT
EMPLOYMENT PER UNIT OF PRODUCTION
PLASTIC RAW MATERIAL PRODUCTION
SPONSOR
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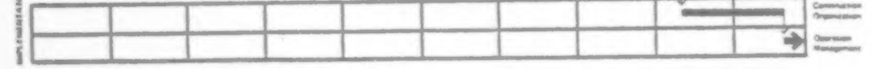
NEGOTIATION
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management

J·3

PROJECT DESCRIPTION

Location of a plastic feedstocks-producing facility will be sought to utilize gasification by-products in combination with local oil products and to provide for secondary processing (conversion) and manufacture of finished goods.


SUPPORT COMMUNITY DESIGN ELEMENTS
COAL GASIFICATION PLANT
SYNTHETIC RUBBER PLANT
EXPORT OF PRODUCTS
AREA RESOURCES
EMPLOYMENT PER UNIT OF PRODUCTION
SYNTHETIC RUBBER PLANT
SPONSOR
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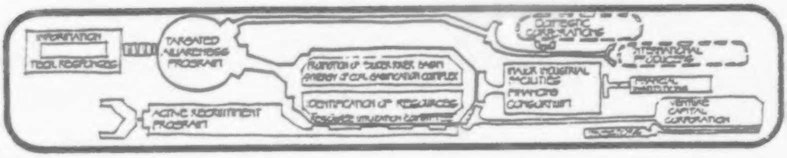
9
10
NEGOTIATIONS
IMPLEMENTATION
Planning Arrangements
Approvals
Construction Organization
Operation Management

J·4

PROJECT DESCRIPTION

A Synthetic rubber plant to utilize by-products of coal gasification and diversify the economic base of the community will also be located near the coal gasification plant.

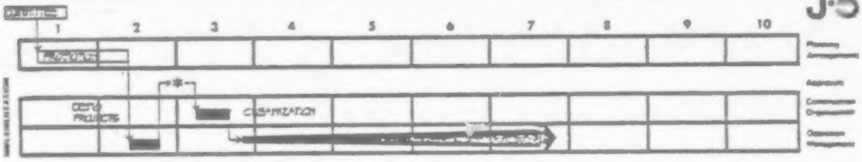
SUPPORT COMMUNITY DESIGN ELEMENTS


INFORMATION
TOOL REFERENCES
TARGETED AWARENESS PROGRAM
DOMESTIC CORPORATIONS
INTERNATIONAL PRODUCERS
PROMOTION OF POWDER RIVER BASIN ENERGY & COAL GASIFICATION COMPLEX
IDENTIFICATION OF RESOURCES
RESOURCE UTILIZATION COMMITTEE
MAJOR INDUSTRIAL FACILITIES
FINANCING CONSORTIUM
FINANCIAL INSTITUTIONS
VENTURE CAPITAL CORPORATION
ACTIVE RECRUITMENT PROGRAM

RESOURCE UTILIZATION INSTITUTE · COAL

J·5

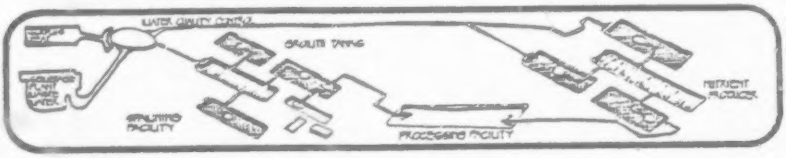
IMPLEMENTATION



PROJECT DESCRIPTION

To create a Resource Utilization Institute, an Organizing Committee will be formed to secure inter-industry sponsorship and obtain federal support, as well as to define key areas for initial concentration of the Institute's activities.

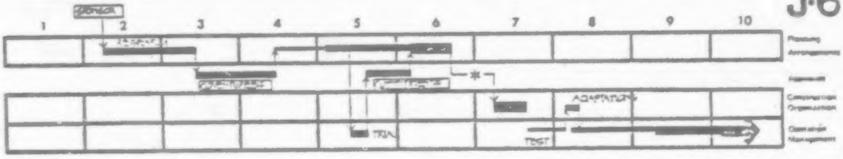
SUPPORT COMMUNITY DESIGN ELEMENTS


WATER QUALITY CONTROL
GROWTH TANKS
SPAWNING FACILITY
PROCESSING FACILITY
NUTRIENT PRODUCER

AQUA-CULTURE

J·6

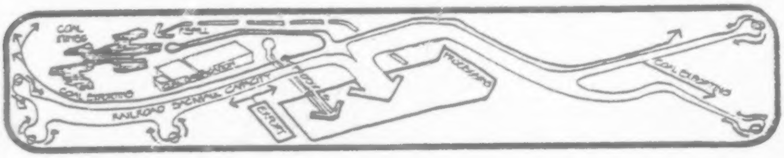
IMPLEMENTATION



PROJECT DESCRIPTION

Aqua-culture uses mined areas to create tanks for production of shellfish, crustaceans and other fish products, using a seperate tank for growth of nutrient material enabling independent management of oxygen, nutrients and water qualities in the growth environment.

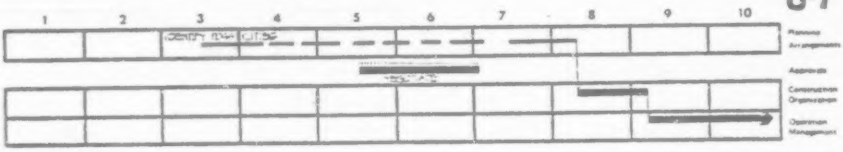
SUPPORT COMMUNITY DESIGN ELEMENTS


COAL MINES
FOOD
COAL EXPORTING
RAILROAD BACKHAUL CAPACITY
EXPORT
PROCESSING
COAL EXPORTING

BACK HAUL PRODUCTS PROCESSING

J·7

IMPLEMENTATION



PROJECT DESCRIPTION

Resource-intensive processing activities, with a high volume of waste and high energy requirements will be sought for introduction to this coal complex to provide for complementary use of industrial-transportation capacities.

THE APPROACH EMPLOYED BY SOCIAL ENGINEERING TECHNOLOGY TO ORGANIZE SUPPORT COMMUNITIES DEALS DIRECTLY WITH:

- how to initiate new financing approaches for industrial construction using all feasible government enablements;

- how to encourage the participation of collateral industries and investments to offset the burden the support community can potentially place on the primary sponsor--for example, investigating new technological applications, finding new uses for by-products of resource production, identifying and starting ancillary businesses;

- how to make better use of technical and managerial personnel during construction phases and create employment for complementary personnel once operation of the major facility commences--for example, attracting special industry to the location to employ spouses of primary workers and construction personnel interested in continuing residence;

- how to announce and initiate a large resource development community to attract highly skilled, educated, adventure-seeking employees--for example, systematic invention of a new life-style choice for a technical corps of new pioneers by including cultural opportunities, celebrations, entrepreneurial openings, spiritual and philosophical aegises, travel and recreation options which would lure qualified employees from city centers. Remember: If you wouldn't like to go..., "they" won't either!

- how to initiate local institutions that are accessible and meaningful to local residents, tailored to the size and staccato growth of the support community--for example, designing a system of financial, merchandising, and "service" institutions that evolve with, and are elaborated by, the community to provide opportunities for reinvestment by residents in the community rather than "franchising out" these operations to service institutions, like banks, restaurants, and retailers;

- how to initiate local governmental forms suited to (1) a town dominated by a single major industry but nonetheless seeking autonomy; (2) a rural area made up of individuals, groups, and voluntary associations usually restricted to dense urban areas; (3) a clientele of entry-level employees and "old hands" seeking a new start, not because they have bottomed out of an old career, but in quest of new challenges on an already successful trajectory--attracting winners, not losers;

- how to "get in the business" of implementing support communities with increasing efficiency, economy, and ease by training new kinds of managers. Developing new technical assistance skills to provide information services, transportation, infrastructural support, and design schemes for remote industrial development sites--for example, providing entrepreneurial grants from a revolving fund to stimulate local competitions to form new ventures.

QUALIFICATIONS

Social Engineering Technology (SET) is uniquely qualified to assist firms in the systematic design and implementation of support communities for major industrial installations in remote areas.

SET staff have had experience with many different kinds of programs to develop communities for supporting rural industrialization in the United States and abroad. In addition, they are familiar with the management of large-scale construction and social action programs. Therefore, SET can be expected to keep a project moving in fruitful areas and to avoid wasting efforts in over-specifying what would better be anticipated developmentally.

SET has specialized over the past seven years in the practical application of social science methods and insights to a broad spectrum of problems which involve improving the performance and capacities of individuals in a variety of settings. SET's special competence lies in reexamining presumed arrangements and limiting conditions to structure more viable business options.

SET key personnal are sensitive to the political environment. They have developed skills in averting unnecessary conflicts and effecting political compromises which transcend the all too frequent dichotomization of issues into highly rhetorical oppositions. This is of particular importance since new resource utilization projects almost always involve changes from the status quo. The changes must have a variety of benefits to offset social and environmental, as well as economic, costs.

The expertise and experience of SET will complement the competence of other professionals--engineers, lawyers, architects, constructors, economists...who may be involved in the effectuation of a large industrial complex. Having a working understanding of a great variety of specialties and frequent experience in working in tandem with others makes SET a valuable catalyst in creating an effective multidisciplinary team. In particular, SET skills in structuring project communications and maintaining project histories can prove valuable in achieving management objectives.

SET believes in leading the action, in shaping events and perceptions. The organization of SET projects is particularly tailored to ferreting out and capturing opportunities. The emphasis of project work is on identifying and exploiting special properties and features of the situation at hand, and not on simply following general principles. The efforts of SET can be expected to yield significant benefits to the client not only on the project in progress, but also in other endeavors as well.

Industrial support communities are a new frontier. They require the fresh application of our collective ingenuity. Nothing can be assumed to be true because it was before. A new order needs to be established. SET seeks to help clients take advantage of the latent opportunities in these unique situations.

CONSULTING CAPABILITIES

- experience with related projects both in the United States and abroad
- knowledge of how to prepare community residents and institutions to assure high performance
- ability to generate imaginative approaches to avoid and resolve political conflicts
- record of looking beyond apparent arrangements and constraints
- interest in surfacing and exploiting latent opportunities
- professional tradition of producing beyond the narrow limits of specific assignments
- familiarity with a broad spectrum of present and emergent technology
- practice of tailoring packages of services appropriate to management phasing.

TEAMING

- broad experience with collaboration
- understanding of distinctive competences
- specialization in group communication methods
- catalytic to multidisciplinary effectiveness
- capacity to help organize projects into clear tasks
- skilled in producing useful project histories.

QUALIFICATIONS

Social Engineering Technology

The purpose of Social Engineering Technology (SET) is to make professional assistance available to policymakers, managers, and administrators to use in situations where current practices and organizational approaches are expected to yield less than desirable results or when important business opportunities are obscured by conflicting future eventualities. SET's project experience includes the design of action programs for business, educational, social service, health, recreational, cultural, environmental, and entertainment organizations.

Formed in 1968, SET has made practical applications of the social and behavioral research to design improvements in the way organizations operate, begin new ventures, understand their clients or customers, and formulate strategies to deal with the future. The firm provides clients with timely professional assistance to:

(1) meaningfully assess situations and articulate issues and problems;
(2) explore opportunities for intervention and suggest options for action; and
(3) dimension the future qualitatively and quantitatively to establish a framework for formulating strategies and specific plans.

Projects undertaken by SET are intentionally "engineering" and not "research." The objective is to produce desirable results and not new knowledge. However, many projects have yielded important new concepts and methods. Most projects involve the design of particular organizational innovations plus the management and operating procedures to produce the intended results. SET projects utilize the professional experience, informed insights, and practical judgments of the staff, complemented by theories and models derived from research, to prepare guidance on directing purposive change to achieve planned objectives.

Specifically, SET is involved in the design of management initiatives that can increase performances and reduce costs. The staff, through their extensive professional and personal contacts, are continuously exploring and assaying developments in forecasting methods, financing arrangements, mercantile systems, technology transfer, and socio-technical design.

SET is not a collection of academically-oriented social scientists for hire. All of the principal staff have wide experience in business and government. The staff insist on being directly relevant to the clients' concerns—even helping to elicit and articulate them. SET does not primarily evaluate the effects of proposed actions for their so-called "social implications." Rather, SET is involved in the design of services, organizations, and plans which incorporate social meaningfulness in their initial conception and social feasibility in their subsequent implementation.

The small core staff of SET is augmented for specific projects by associates with a wide variety of specialties and professional experience. An appropriate "mix" of specialists drawn from both groups is organized for each project. A typical project team might include: an information systems specialist, a behavioral scientist with experience in organizational design, and a professional with extensive experience in a field directly related to the client's organization, such as electrical engineering, transportation economics, or consumer product marketing.

The objective of assignments undertaken by the SET is not to create dependence, but to foster the growth of a profitable competence within client organizations—specifically to enhance the organization's ability to act effectively in the present to respond to the future. As an organization becomes more skilled in dealing with complex and dynamic situations, its capacity to absorb and make use of more powerful techniques increases.

The diverse backgrounds of the individual SET staff act to keep projects moving in fruitful areas. When unanticipated topics are encountered or unexpected relationships lead a project into new areas, the broad experience and creative acumen of the staff permit rapid adjustment of the project plan to respond to the unfolding situation.

The capabilities of SET personnel and the orientation of the firm are directed to the following kinds of assignments:

- formulating and implementing planning procedures and specific plans that increase the options available to clients, by arranging information in forms that are usable and meaningful in terms of the prevailing social, economic, and political constraints and the opportunities present;
- identifying, designing, and implementing organizational design and role-negotiating procedures for clients that will enable the target individuals, organizations, and communities to make more creative arrangements and devise more effective solutions to produce results in situations that affect and are affected by diverse interest groups—each one, typically, with its own objectives.
- defining, delineating, and measuring the expectations of identified interest groups and segments of the market in order to evaluate the acceptability of a client's concepts. products, or other proposals; and
- establishing design criteria for new or revised activities of private or public clients that explicitly recognize the constraints imposed by more inclusive organizational structures, geographic frameworks, economic relationships, and political configurations.

SET has developed specialized competence in the following types of projects:

Economic Performance—Support communities for remote industrial operations, improved resource utilization strategies (land, facilities, rights...) distribution and market analysis, improved productivity from extablished activities, the design of special purpose organizations or institutions, multi-dimensional budgeting, improved utilization of human resources, identification of new business and institutional activities to stimulate economic development, and assessment of socioeconomic impact of new facilities or actions.

Future Studies—Implications of current and prospective social and technical changes on (1) individual's espousal of life styles, (2) the management and organization of large institutions, (3) the markets for particular goods and services, (4) housing patterns, and (5) the benefits of major investments being planned for such commitments as transportation infrastructure, urban development, and educational systems.

Technological Introductions—Formulation of strategic plans to guide the phased adoption of new devices, procedures, systems,... that recognize the requirement for collaborative articulation of specific features of the new technology, including financing, to overcome resistance based on such factors as cultural bias, economic self-interest, innovative attribution, expectational dissonance, and multi-interest conflicts.

Conference Design—Create format and materials for simulation exercises to enable participants to experience new situations, organization of regional and national meetings for trade associations and professional societies, introduce computer conferencing systems to augment performance of informal relationships in organizations and improve quality of formal reporting protocols, and conduct media-based dialoging processes for group interaction.

Transportation Systems--Planning for financing and procurement of major transit improvements, micro-economic methods for forecasting demand, mass transportation marketing programs, strategies for transportation corridor development, concepts for the development of national transportation policies, and technology transfer to improve the flow of innovations in urban mass transportation.

Health Delivery Systems--Organization of client-centered system for prepaid health maintenance organizations (HMOs) to provide high quality prevention-oriented services at lower cost, create peer review and quality control mechanisms, development of health education materials, design of computer-based claims review system, and formulation of mental health exercises to improve functioning.

Educational Services--Assessment of educational offerings, program development for facilities planning and design, personnel planning for new educational approaches, programs for transitional implementation and management of career education, and organizational development to facilitate productive community involvement.

Information Management--Determination of requirements for information systems, design of time sharing systems particularly for market aggregation, financial management systems, and future-oriented information systems to support executive decision-making, including conferencing features and graphic aids.

Military Defense--Developing environmental management methods to improve unit effectiveness, multipurpose procurements of new technologies, motivation and morale studies, and concepts for alternative or multiple uses for both existing facilities and proposed procurements as well as subsequent uses.

Urban Planning and Design--Articulation of community development programs, community goals analysis, innovative residential development, housing for the elderly, counter-measures to reduce crime and vandalism, use of conferencing systems to facilitate state and local cooperation in economic development, and the organization of participative processes for planning and management.

Organizational Experience

In addition to projects undertaken directly by Social Engineering Technology (technical services firm), key professionals in the firm have also directed projects for related organizations—The Afro-American Cultural Center (nonprofit educational and community service projects) and UWA Commercial Development International, Inc. (incentive-based performance contracts and commercial transactions). AEolus Intermediaries, a recently organized corporation, is the successor in interest to UWA-CD International Inc. The project experiences of the separate entities are separately identified with brief summaries below.

The project experience of these related organizations is quite diverse. Taken together, these projects demonstrate the abilities of the key professionals to rapidly assess situations, define a client's critical objectives, and organize a specific set of tasks to accomplish these aims. Merely listing representative engagements would not convey either the breadth of topics addressed nor the straightforward approach to pragmatic application of socio-technical principles that is a common element which informs the work. These socio-technical principles integrate the separate contributions from management, sociology, law, marketing, economics, psychology, engineering, research, finance, administration, design.... which may be required in any one assignment to organize effective instrumental actions.

The projects of Social Engineering Technology include:

Santa Anita Consolidated Inc: Concept Development and Implementation Planning for Redevelopment of 400 Acres - Race Track Property. Consulted as part of a planning development team to formulate an image and theme for a new urban center, analyze various community interest groups of the local area to formulate strategies to generate support for zoning changes, forecast impact of development of the property on local government finances, analyze and evaluate the expectations of major segments of the population of the Southern California region about new shopping and recreational centers to insure viability in the future for the planned development.

Multiclient (Industrial & Financial Corporations): Future Business Opportunities in Recreation and Leisure. Prepared book-length analysis of probable life styles in the post-industrial society, marketing approaches for the new era, examples of new leisure/recreation products and services, and description of the use of relevance-tree analysis for discovering business opportunities. This joint-project with Midwest Research Institute was sponsored by 25 major corporations (including Ford, GM, Cities Service, Union Oil, Beatrice Foods, and several bank holding companies). The study emphasized alterations in cultural forms that will have a major influence on the choices of recreation and leisure, including new time allocations, ways of dividing and owning property, and the nature of group affiliations individuals will make.

Electric Power Research Institute: Directing Introduction of New Technology. Conducted year-long technical planning study to document the theory and experiences of major firms and public agencies related to promoting adoption of technical advances. Both service and products were explored. A pragmatic-consensual strategy was devised for first addressing the strategic-policy considerations and then moving ahead with phased efforts to secure acceptance from pioneering innovators, early adopters, and general acceptors. A series of training seminars for technical managers of key technologies were organized, using concrete, current examples as the focus for implementing new approaches.

Fugro Incorporated: Professional Services Marketing Strategy. Portrayed the ten-to-fifteen-year future for professional services in geotechnical and related fields and suggested profitable topics for concentration along with alternative packages of services that could be offered to increase revenues and lead to more profitable participation relationships. Services that would complement the firm's international geotechnical expertise were recommended to guide staff development and recruiting.

Exxon Enterprises: Advanced Battery Systems Applications. Suggested alternative strategies for pursuing the development of a profitable market for advanced technology battery systems and identified potential applications that could be approached concurrently at successive stages in the process to support increasing acceptance while maintaining defensible markets.

Inland Empire Credit Union Association: New Futures for Credit Unions. SET prepared forecasts and conducted management workshops to provide board members and staff of member credit unions with a greater sense of self-direction for seeking new opportunities. Both loan policies and investment possibilities were considered in the context of simulations of specific cases.

International Nickel Company of Canada: Corporate Planning Guide for Support Communities. Based on review of experiences in Guatemala and Indonesia SET prepared guide for social planning of future support communities from exploration and negotiation, through preparation and construction, transition into operation, and on to maturation. The guide emphasizes the intensive recruitment and selection of both construction and operating personnel and the staged development of major urban systems. Each element of a support community is described. A process for the financial evaluation of proposed actions is presented. The tropical experience with support communities of other mining firms is also reviewed.

Hazan International: Future Market Opportunities for High-Speed Bucket Elevators. Prepared an international market assessment based on interviews with leading users of loaders, stackers, reclaimers, and unloaders in the U.S. and nations with major seaport development projects. Port facility engineers and ship designers were also interviewed. Product plans of U.S. manufacturers were explored.

Office of Naval Research: Environmental Management for Performance Improvement. Held a two-day workshop with major interests in topic of shipboard environments to assess most promising courses of action for future development. Prepared report (Shipshaping--Management of the Ship Environment to Improve Navy Effectiveness in the Future) covering the state of art in the field and indicating important directions for future work.

Hall and Levine Advertising: Promotional Rationale for Hotel-Condominium Development. Assisted in the identification of appeals that would differentially attract a specific marketing target—40s and 50s entrepreneurs seeking luxury supplemental housing location to support growing secondary interests.

National Health Management: Prepaid Health Delivery System. A new prevention-oriented delivery system has been designed by SET to integrate and augment the increasingly costly way in which clinical services have been traditionally rendered by physicians and related specialists. The new service structure emphasizes consumer involvement and responsibility with improved utilization of skilled para-medical personnel to achieve specific health objectives. New program called Eudemotics promises better care at reduced costs in comparison to the "curative model."

Proprietary: Financing Mass Transit in the Future. Policy options for nonsubsidized development of mixed-mode mass transit systems were defined by SET. Alternative forms of procurement, financing, and operation were described for local agencies and governments to consider in pursuing the development of mass transit systems.

Urban Mass Transit Administration - TSC, DOT: Improvements from Capital Grants Program. In this project, the process by which new rail commuter cars were introduced from initial conception to experience in revenue service by the Illinois Central Railroad was studied. The project developed a taxonomy for describing innovations. Both innovations incorporated in the new equipment and related improvements to services as well as concepts that should be considered by subsequent projects were identified. A generalizable technique was developed for capturing potential innovations which grow out of a particular experience but which are not possible to incorporate on the project at hand. Areas for profitable attention by management and researchers in future projects were defined.

Hazan International: Telephone Interconnect Devices. Identified second-generation electronic equipment being developed for telephone subscriber applications with substantial applications in European, Middle-Eastern, and North African markets and ascertained interest of developer/manufacturer in venture with major French equipment supplier.

State of Wisconsin and OEO: Improving Performance of Executive Office. Provided technical leadership and prepared operational descriptions for an advanced information system that could materially increase the effectiveness of a governor and his office. SET worked with the State of Wisconsin and Singer Information Systems to develop a prototype system called GENIE (Government Executive's Normative Information Expeditor). Wisconsin was selected because it was the most advanced State in the use of information systems to augment governmental decision -making. A description of the GENIE system and an implementation was prepared and several briefings were made to Federal and State officials as well as to professionals concerned with information system design.

Hunters Point/Bayview Community Health Center, San Francisco: Community Action Studies. Consulted on a variety of issues that involved relationships between physical health and employment, job status, family life, poverty, education and business opportunities, social services, and commercial activities on the potential well-being of the residents of the area that is served by the center.

Business Press International: Conference Programming. Designed conferences including the meeting format, pre-conference materials, promotional efforts, and selection of the topics around the theme of future marketing methods. Prepared speakers and produced a variety of presentations and participatory exercises to convey central ideas and suggest directions for further inquiry.

Heritage Environments Corporation: Operating Format and Feasibility Study for a Health and Personal Development Program. Development of a program and facilities plan for a new health-oriented service directed to the problems of individuals and small groups in the occupational setting. This project involved the structuring of several interrelated programs including physical examination and surveillance, industrial hygiene, management of the health aspects of administration within client companies, intervention by several possible disciplines into counterproductive syndromes or deteriorating situations, individual crisis intervention, personal growth and development. Training for professionals in these new areas of activity was organized. Facilities were designed for an urban center and a residential retreat.

Ralph M. Parsons Company: Predictions of Air Traffic Demand Using Models Based on Future Behavior. Formulated and calibrated a model for forecasting potential air traffic demand for the Chicago area as a part of a study of a possible third major airport for the Chicago region. The model is sensitive to contextual changes in the quality of life in the future as well as to possible specific national policy changes. This intuitively verifiable model for forecasting air traffic demand was sensitive to life style and institutional changes which result in tradeoffs between different economic sectors (e.g., travel for housing). Macroeconomic models used extensively in the past consistently underestimated air traffic demand by being insensitive to these changes.

Federal Aviation Administration, DOT: National Aviation Concept Plan. With William L. Ferreira, Associates, SET prepared a plan to guide the growth of airports and related "groundside" support facilities. Both new services to respond to emerging life styles and service systems based on available technology were considered. Plausible institutional changes in the roles of carriers, regulators, and suppliers were defined.

Weyerhauser Corporation: Future Trend Monitoring and Scenario Producing System. SET consulted to Pacific House for organizing a futures generating system to support corporate planning. This system was subsequently adopted by other corporations and has been adapted by WBSI for use in national policy development by the League of Women Voters.

Department of Health Education and Welfare: Social Service Innovations for Model Cities Programs. A number of models for locally-initiated consumer-assistance services were developed. In addition to improving access to public services to residents, the staff roles in these local assistance teams would serve as employment bridges to specialized service sectors. Providing "one stop" assistance to often underserved residents of these disadvantaged neighborhoods can be better accomplished by the use of trusted generalists from the area instead of increasing the staffs of the different service agencies to more aggressively seek clients.

Hazan International: Markets for Nuclear Safety Devices. Identified non-French world markets for nuclear safety devices including the current status of regulatory standards and approvals as well as reassessments of nuclear development plans in the light of more organized opposition.

Peninsula Venture Capital (ESMIT): Market Penetrating Strategy. Formulated a noncoercive promotional approach to secure adoption of a system for Electric Service Management though Interactive Technology (ESMIT) that emphasized nonregulated revenues from ancillary services that could be added ad hoc by customers who would purchase devices.

U.S. Office of Education: A Forecasting System for Educational Manpower. SET created an observer-based system for forecasting the changes in supply and demand for educational manpower to augment USOE reporting system. The augmented system would produce policy-relevant forecasts that could be used by local school administrators to modify their own forecasts. Past reports with linear forecasts provided general statistical comparisons at state and national levels, but without giving figures for particular manpower cohorts that could be affected by local policy options.

World Future Society: Energy Futures--Crisis Critics and Problem Solving. Prepared background paper for special national conference on Energy: "Today's Choices, Tomorrow's Opportunities." The paper described the role of crises in both fostering and frustrating problemsolving actions by responsible administrative bodies.

U.S. Administrators: Quality Review for Health Services Delivery. Planned and organized a functioning PSRO (Professional Services Review Organization) for major private fourth-party payee. Review process included all medical, surgical, and dental specialists and allied health professionals. An integrated set of directives (policy guide) was prepared to establish standard of practice for computer screening of individual claims and development of patient and provider profiles for longitudinal assessment.

Operating Companies Group (Panhandle Eastern Gas Transmission Corporation: Remote Industrial Support Community). Prepared social services and community governance plans for new community in the Powder River Basin of Wyoming (1974) to support large-scale coal gasification operations, part of which included a health-oriented HMO.

AIA Research Corporation: Building Code Reform. Consulted on organization of model for developing statewide performance-based building codes through carefully managed professional collaboration. Adoption of new codes would be facilitated through carefully managed program for diffusion of innovations target at influencing key professional, business and government personnel.

ESI-Japan: Model for a Futures Assessment Center: Japan. A model was formulated for a futures assessment center for Japan which could secure self-sustaining support from both public and private sources. The center would be initially funded by the Ministry of Transportation under contract to ESI-Japan. The proposed center would serve both economic development and environmental management objectives. The specific service components of the center would provide continuing futures research, facilities for public participation, maintain shared data bases, and provide special services to agencies and corporations not efficiently supplied by in-house staffs.

CITEL (French Electronics Manufacturer): Collaboration/Diversification Strategies. Explored opportunities for cooperative entry into U.S. market for quality surge arrestors through promotion by major representative network, sales through major primary customer, and collaboration with U.S. manufacturers to complementarily develop a more comprehensive line.

Los Angeles Community Redevelopment Agency: Single-Room Occupancy Housing. Programmed architectural facilities and operational management for new residential facility in Skid Row area to serve long-term residents being displaced by other construction projects at reasonable cost.

Federal Property Review Board: Joint Use of DoD Facilities. SET suggested an expanded role for DoD facilities as producing nondefense benefits becomes an important factor in supporting defense preparedness. Just as defense benefits had been important to the support of educational and transportation programs in the past, DoD could support surplus capacity necessary for deterence by programming ancillary uses.

The Futures Group (Rx Futures): Social Change and Pharmacology. An assessment was made of major social changes that would likely affect health -care delivery and expected structural changes in the organization of health-care delivery systems. The effects of these changes and their implication for present pharmaceutical products and the creation of demand for new products was described.

CAPTURE - City of San Mateo: Crime Prevention Through Environmental Design. Constructed training workshops for police specialists and key community residents on the principles of environmental design which can be applied to reducing crime. Examples of existing problems and current improvements were presented. Participants engaged in multi-disciplinary development of countermeasures based on environmental design for particular targets. Solutions developed by the groups were critiqued and other alternatives discussed to stimulate support for greater awareness.

County of San Diego: Psycho-Social Assessment of Facility for Conversion. Examined facility presently partically occupied by San Diego Port District for its administrative offices and potential more valuable to County of San Diego for expanding its administrative offices. The facility built originally by Convair-General Dynamics is largely windowless and is known locally as "The Rock." SET suggested means to ameliorate negative effects of windowless space while retaining its advantages in conjunction with Architect Richard George Wheeler Associates. The symbolic value and stimulation to local area of County occupancy of the facility was described.

Los Angeles Unified School District: Training of Aides to Assist with Developmentally Disabled. SET organized and conducted a series of workshops and discussion groups to enable aides to better understand their contributions and negotiate their roles in assisting schools in providing integrated education to the developmentally disabled.

National Institute of Education: A Career Education Program (Community Model). Concepts, rationale, and program design for a new educational strategy that would combine experience from both school and nonschool settings was developed for the Los Angeles Unified School District as part of a national program managed by Ohio State University. Analysis included attention to the educational implications of current and prospective changes in technology and social institutions. Both a program rationale, "Growing Up Aware," and an operating guide, "Educational Experiences Exchange," were prepared.

California State College, Dominguez Hills: Design for a New Institute. Provided consultation to the Office of Academic Affairs, on the administrative procedures and curriculum content to be included in a new Institute for Urban Environmental Management. SET assisted in the preparation of proposals to federal and state education agencies and to various private foundations for funding to establish the Institute, and helped develop a program for eliciting the support of businesses with major installations in the large industrial and commercial areas surrounding the campus.

National Institute of Mental Health: Drug Abuse Prevention. Directed national conferencing project to define alternatives for drug abuse. This project was called Alternative Pursuits for America's Third Century. The project involved providing technical assistance to self -identified "instigators" thoughout the country to organize a group and for the group to discuss and select a project, plan its activities, obtain resources, and undertake actions to create viable alternatives in their community. SET developed multimedia packages and electronic dialoging techniques for conferencing, the diffusion of innovations, and collaboration in solving design problems.

Compton Union High School District: Facilities Masterplan (with District Architect). This study involved a survey of potential change and identification of precipitating events in Compton and the Los Angeles region. Impacts on educational requirements and resources of each event were suggested. Emphasis was placed on the impacts of the proposed Century and Industrial Freeways and the various options available to the community in the event of different route selections. A survey of the educational resources of the total community was conducted to explore the feasibility of joint utilization of both private and community facilities to meet new and expanding demands for a wider variety of educational settings.

California Council for Retarded Children: Generation of Alternative Policies for the Care of the Retarded. Prepared an action plan for the formulation of alternative policy and resource allocation mechanics to open new means of integrating the retarded into the community and avoiding the further waste of vast human and social resources. Conducted Delphi inquiry into new roles for the retarded outside of institutions in semi-autonomous settings.

This pioneering effort in the use of Delphi to formulate policies has demonstrated the value of this tool in the moderation of discussions about highly sensitive subjects with heavy emotional loadings by focusing on the participants' attention on the detailed experiences depicted in uncompleted mini-scenarios and role mappings.

Oklahoma State Health Planning Agency: Statewide Training Conferences on Comprehensive Health Planning. Design, coordination, and evaluation of a training and participation program in comprehensive health planning. Preparation of contextual studies and material for the statewide institutionalization of health planning on a more comprehensive scale. Included the providers of medical care services, as well as representatives of insurers, the communications media, trade unions, consumer groups and the business community.

City of Long Beach: Social Plan-CRP Program of HUD. A social plan was developed for the City of Long Beach, California. This plan was part of the HUD community review process and was coordinated with the physical plan proposed by Victor Gruen Associates. A survey of community needs was undertaken and options for future development were generated with particular emphasis on community mental health.

Los Angeles Goals Commission: Review of Preliminary Proposals. Provided a critical evaluation of concepts for the future of the City of Los Angeles as part of the Goals Commission's work for the Department of City Planning. The review examined questions of the responsiveness of each of the six alternative development concepts proposed for dealing with citywide social problems and adaptability to continuing change.

Association of Residences for the Retarded in Minnesota: Designing for Success. A variety of situations for development of community -based residential settings for the developmentally disabled were defined by SET. A workshop was held to give program administrators and facility operators experience in the design of noninstitutional residential environments.

Outdoor Game Council of the U.S.A.: This Business of Growing Up. Prepared guidelines for the OGC to assist businesses to create programs that could involve more youth in their operations. By providing more than "visitor" status to youth, industry can give youth direct experiential contact that can do much to counter longstanding alienation that has produced a considerable suspicion in today's young adults.

Health Manpower Consortium of South Central Los Angeles: New Roles in Medical Services. Created a training plan to recruit and educate ancillary health personnel from the local community to serve in new roles in the administration and delivery of health services. Training combined junior college coursework with practicums to provide experience with health systems and to establish new roles with prospective employers.

California Institute of the Arts: Housing Study. Identified and described various housing options for integrating the faculty and students of the Institute into the new community of Valencia. The methods developed emphasized maximization of benefits to both the community and the Institute through housing facilities that recognize the distinct housing problems of a rapidly expanding area. The program suggested use of the Institute's housing facilities as temporary housing for new residents, transient housing for guests of residents, in addition to housing students. Also, advocated the use of faculty housing expenditures to provide examples of advanced housing designs that could be expanded to include other residents who would choose new offerings.

Group Therapy Centers, Inc: General Management and Community Relations. In this engagement, SET worked closely with the president and senior staff of the corporation in advising them on the programs necessary to make such centers relevant to the needs of local communities, particularly in middle and lower income areas. Patterns of referrals and types of introductory experiences were developed to complement publicity materials. Locations for centers in eight cities were suggested.

The project summaries that follow indicate the experience of SET-related organizations:

National Party of Nigeria: Administrative Guidance. Consulted to the transition team established to provide for government functioning based on the United States model. Identified critical differences between a presidential system and parliamentary system of government and recommended restructuring for ministries and secretariat to realize opportunities in new governmental form. Assisted in drafting basic policies for rural development, electrification, water supply, and resource development of the eastern section of the country.

Paramount Pictures: Personnel Services Assistance. Established a nationwide network for early identification and recruitment of promising management personnel for fast-track assignments in corporate headquarters and production divisions.

Israel Institute of Technology: Marketing Approaches for Powdered Juice Products. Conducted critical analysis of consumer acceptance of nontraditional presentation of fruit juice products. Proposed marketing approaches and packaging for mass marketing in international markets. Examined local law and market resistances to determine difficulties and identify potential collaborators in joint ventures.

CPL Imperial (SPA) Italy: Opportunities in Agricultural Specialties. Provided technical assistance in forecasting and procuring special agricultural products available from the pacific coast of the United States for profitable distribution and resale in Italy on a regular ongoing basis.

South Africa, South African State Oil Limited. Provided technical assistance concerning methods and procedures that could be used to obtain substantial quantities of unrefined petroleum from nontraditional suppliers.

Los Angeles Municipal Arts Council: Coordination with Local Community Artists. Organized and scheduled artistic experiences in culturally deprived areas as well as workshops to develop artistic ability of youth from these communities.

Compton Unified School District: Voluntary Desegregation Program. Designed, developed, and coordinated the implementation of a voluntary desegregation plan to bring the District into compliance with the Civil Rights Acts of 1964.

Charles Satos & Company, Toronto: Investment Review. Evaluated real estate options in the Los Angeles metropolitan area consistent with financial objectives of Greek investors interested in mid-sized building projects including the examination of Greek law to formulate methods for repatriating profits and capital.

Fresno, Paramount, ABC, Whisman, Inglewood, and Unified School Districts: Supplementing Cultural Education Programs. Provided assistance in the development of educational programs to reduce the developmental lag in culturally deprived children while increasing the Human Relations skills of selected instructors.

National Endowment for the Arts: Technical Assistance to Local Artists. Provided support through organization of artists-in-residence projects which trained artists in becoming more widely recognized and skilled in self-promotion and developing markets for their work.

Ravenswood City School District: Program Assessment. Evaluated the district's implementation of its specialized education programs designed to eliminate the effects of racial isolation. Provided technical assistance in defining objectives for evaluation, designed evaluation instruments, and conducted surveys.

Los Angeles Unified School District: Meaning of Minority. Designed training packages to be used by instructors to sensitize them to the issues of minority-majority cultural differences and to highlight the special educational needs of children from the nondominant cultures.

City of Los Angeles Personnel Department: Manpower Programs Evaluation. Designed, implemented, and evaluated manpower programs serving disadvantaged individuals facing structural unemployment problems. These programs are designed to provide skills training and job search techniques utilizing community-based organizations.

South Africa—Department of Education: Values Clarification Program. Assisted in the development and implementation of behavioral modification techniques for use in educational institutions within the tribal homelands to encourage rapid movement toward adoption of cultural values consistent with twentieth century relationships, institutions, and technologies.

Department of Health Education & Welfare, USOE: Emergency School Aid Act. Designed and implemented training packages for teachers working in school districts which were recently desegregated or who were facing a court order mandating desegregation. The packages focused on teaching methods and learning styles in multicultural environments consistent with the cultural values of each independent ethnic group serviced by a particular school district.

United States Forestry Service: Training on E.E.D.C. and Title IX Implementation Activities. Prepared and coordinated three (3) day conferences to address the issues of compliance within the meaning of Title IX 42 USC 2000 et seq, Civil Rights Acts of 1964.

MINORITY BUSINESS DEVELOPMENT AGENCY
TASK FORCE REPORT
ON
THE IMPACT OF ENTERPRISE ZONES
ON SMALL AND MINORITY BUSINESS

FINAL REPORT

OCTOBER 30, 1981

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This report was prepared by independent consultants (the task force authors) with funding from the Minority Business Development Agency, U.S. Department of Commerce. The research, statements, conclusions and recommendations contained herein are those of the consultants and do not necessarily reflect the views of the U.S. Government, Department of Commerce or the Minority Business Development Agency

PREFACE

The Minority Business Development Agency (MBDA) Task Force on Enterprise Zones began its work June 29, 1981 under the auspices of the Office of Research and Information, MBDA, United States Department of Commerce. The task force was formed as a reflection of the Director of MBDA's interest in assuring that enterprise zones assist small and minority business.

A number of enterprise zone bills are currently being considered by the 97th Congress, and many similar pieces of legislation are already in place in various states. This makes it appropriate for MBDA to prepare for an active role in design and implementation of enterprise zones. Active interest in the subject and MBDA needs for early involvement led to study design, field research, and preparation of a full first draft of the report by September 28, 1981. This could not have been accomplished without an active and diverse group of individuals as task force members. During the first month Greg Dawson provided invaluable city contacts and advice on preparation for field work. Throughout the entire project Steve Davidson led a major part of the field work and contributed particularly on financing issues. Shirley Chilton brought added sources of information and an important theoretical perspective. John Oxendine combined academic training and extensive work with all levels of economic problems of the minority communities. All operated as essential parts of the design and data gathering process.

Steve Davidson, Shirley Chilton, and John Oxendine were major contributors to the preparation of all sections of the following report. The task force also benefited from the support and the contributions of Ferguson·Bryan and Associates. FBA provided the task force with advice before the field work commenced, and with assistance in producing this report.

The final responsibility for this report rests with the Chairman, Thomas Dandridge who participated in all phases of the study and report preparation, with particular emphasis on organization and coordination.

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EXECUTIVE SUMMARY

Task Force Report on Enterprise Zones and Small and Minority Business

Introduction

The purpose of this executive summary is to briefly state: (a) why the task force was established; (b) what the task force did and found; and (c) the principal recommendations for small and minority business involvement in enterprise zones. The complete report submitted with this executive summary provides the detailed discussions that support and led to the recommendations included herein.

The Task Force

A task force approach was chosen by the Director of MBDA for several reasons:

- MBDA did not have staff experience in this area
- A breadth of talent and experience was needed for a short period of time
- Individuals not directly associated with MBDA might contribute a non-partisan assessment of enterprise zone effects on small and minority businesses.

Therefore, in June 1981, the task force was convened under the auspices of the Office of Research and Information, MBDA. The challenge to the team assembled was to:

- Review existing enterprise zone proposals (five Federal bills and numerous state bills)
- Identify in those bills, potential effects on small and minority businesses

- Pursue alternative methods of ensuring that the likely effects are felt as positive impacts stimulating minority business growth and job creation.

To fully meet that challenge, the task force carried out a survey of organizations and individuals who could influence small and minority business participation in benefits from enterprise zones.

What the Task Force Did and Found

The survey was conducted by visiting nineteen cities. While they vary in size, in general they are large, urban, and contain sections that meet enterprise zone criteria. In those cities, the task force met with local officials, bankers, venture capitalists, minority businesses, community representatives, and large business executives. During those meetings, discussion focussed on the legislative goals of: (a) new business creation, (b) job creation, and (c) local economic development. Respondents were asked to express their knowledge of the enterprise zone concept, their opinions as to its strong points and shortcomings, and, most importantly, how the concept could benefit small and minority businesses.

The task force found that:

- Zone residents and minority businessmen tend to view the concept as a comprehensive urban development tool. Those respondents believe many issues must be resolved for the zones to be successful or to be of direct benefit to small or minority businesses.

- Financiers require more incentives, guarantees, and faster returns from investments in businesses operating in distressed areas where small businesses face extensive risk and operating problems.
- Local officials and community-based organization representatives have not yet adjusted to a free enterprise approach to economic development.
- Small business owners are hesitant to accept large numbers of untrained workers even though they support the job creation goals of the legislation.

Those general findings and other specific findings (included in the full report) led to a series of recommendations. The recommendations are intended to bring about a positive role for small and minority businesses in enterprise zones.

Recommendations

The task force found that the effects of the existing legislative proposals do not represent sound, positive impacts for small and minority businesses. Thus, the major steps that need to be taken by various parties are listed below.

Capital Requirements

- Investment tax credits and accelerated write-offs should be available directly to investors in zone businesses
- Investment pools should be established to reduce or diversify risk. The funds would come from the financial community and could be matched by guarantee pools. This should generate the crucial seed capital needed for new business starts.

Management Development

- Technical assistance centers should be established in enterprise zones. Fledgling businesses will need accounting, marketing, and management assistance to succeed. These services must be creditable and accessible.

Labor

- Businesses should get substantial tax credits for hiring, training, and providing stable jobs to zone residents.

Local Participation

- Zones should be run by professional managers who will be judged on achievement of clear objectives. These managers should report to zone boards consisting of residents, business operators, city officials, and representatives of financial institutions. When possible the management should operate on a profit accountability basis.

Monitoring

- The myriad of business development, job training, infrastructure rebuilding and other zone programs must be monitored. The oversight recommended should be local with a minor Federal role for evaluation purposes only.

These recommendations and others are all explained in the full report which identifies possible MBDA actions and estimates potential Federal resource requirements.

I. INTRODUCTION

The Task Force

The task force was chosen as the appropriate vehicle for MBDA to understand enterprise zones and define its role in an enterprise zone program. In selecting a task force approach, MBDA also recognized the potential value of an effort that would be based on field work and case study. To date, most analyses of enterprise zones have been based more on theoretical studies. Therefore, a practical approach was called for to reach MBDA objectives.

Task Force Mission

A task force approach was favored as a way for MBDA to understand how enterprise zones will impact on minority businesses. In as much as the enterprise zone concept stimulates growth and revitalization in depressed areas which are likely to be located in primarily minority communities, the design of an enterprise zone program has far reaching implications for minority business. This in itself justifies MBDA involvement.

Further support for an MBDA study is based on Executive Order 11625 which defines the function of the Minority Business Development Agency (MBDA) in Section 1(a) to "Coordinate as consistent with the law, the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation, and strengthening of minority business enterprise."

It became apparent, however, that the original objective of evaluating the program for its potential and limitations for minorities required a broadened research approach to examine all enterprise zone decisions that might influence opportunities for jobs, and entrepreneurship for small and minority business. Consequently, the task force sought initially to:

- Review major entreprise zone legislation to determine the potential benefits inherent in each for minority business revitalization
- Evaluate tax incentives and regulatory action Federal, state and local governments might take to support business activity, job development and economic growth in enterprise zones
- Examine ways MBDA and other agencies' functions might be coordinated for the most effective outcome of the goals of enterprise zones
- Use field research to assess enterprise zone from the persepctive of all the local decision makers who will influence their actual operation and success.

ORGANIZATION OF THE REPORT

The remainder of the report is organized in the following manner:

II. The Enterprise Zone Concept

III. Study Approach

IV. Findings and Discussions

-- Capital Requirements
-- Management Development
-- Labor
-- Local Action
-- Monitoring

V. Recommendations

VI. Appendices

II. THE ENTERPRISE ZONE CONCEPT

Enterprise zones, are locally designated areas plagued by high unemployment, eroding tax revenues, declining commercial activity and general urban decay. Although federal and state bills differ, the thrust of all enterprise zone proposals to date promote three overriding goals. They are:

- Job Creation
- Business Development and
- Comprehensive Economic Development

Enterprise Zone Legislation

Enterprise zone legislative proposals are designed to stimulate expansion of private enterprise in severely distressed areas, create jobs for the structurally unemployed, support business development, and improve the quality of life in the designated communities.

This is to be accomplished by an approach that differs from most past federal efforts toward urban development. It is however, consistent with the economic philosophy of the Reagan Administration. While most Federal development programs expend funds to stimulate local business growth and expand economic development activity through grants, subsidies, revenue sharing, etc., enterprise zone bills intend to reawaken distressed areas by extracting fewer tax dollars from firms in zone areas. In so doing, more rewards will be made available for those who undertake the risk of doing business in enterprise zones.

The greater reward will in turn attract job creating enterprises who employ tax paying workers. Ultimately, new taxes generated and the reduction of transfer payments to zone residents should exceed the amount of lost revenues from tax incentives granted to zone businesses or investors in those businesses.

Major Legislation

The concept just described is clearly evident in the most widely discussed bill to date, HR 3824 - Kemp-Garcia. Appendix 1 contains a summary of other pending bills for enterprise zones and for support of small or minority business. The task force recognized however, that the greatest attention has been paid to the Kemp-Garcia bill and hence used this as basis for interviews. A companion bill to HR 3824 has been introduced in the Senate by Senators Chafee and Boschwitz (S1310).

These two bills call for:

- Local governments, subject to approval by HUD, to propose zone areas
- Zones areas to meet U.D.A.G. eligibility standards of poverty, unemployment, and property abandonment
- HUD designation of 10 to 25 zones per year for the first three years
- Businesses to generate at least 50 percent of their revenues in the zone and employ a work force with at least 40 percent CETA eligible workers.

- Benefits include: Refundable tax credits to companies based on wages paid to CETA eligible employees by zone enterprises
- Extended tax loss carry forwards and diminished capital gains taxes for zone businesses or investors
- Reduced tax on interest from zone investments
- Refundable income tax credit directly to all zone employees.

Other enterprise zone legislation includes:

a) Heinz-Reigle (S1240) which is similar to Kemp-Garcia. It requires various forms of local commitment, and replaces CETA eligibility of workers with a zone residency requirement. Benefits include rapid depreciation increased targeted job tax credit, and relaxed subchapter S rules.

b) Rangel (HR2950) lets state governors designate targeted areas. Tax incentives are provided for hiring eligible workers

c) Nowak (HR2965) gives points to areas for poverty, unemployment, and slow growth in per capita income. Communities receiving the most points are eligible for tax incentives, with no local commitment required. Rapid depreciation and tax credits are provided.

d) Albosta (HR3) targets tax incentives to areas with high rates of unemployment. Rapid depreciation and tax credits encourage investment, employment, and especially investment in renewable energy resources.

e) Watkins (S360) provides refundable tax credits for targeted jobs and for rehab of buildings in rural zones designated by the Secretary of Agriculture.

These bills and others related to small business are described in Appendix 1.

III. STUDY APPROACH

Background

This section describes the approach the task force adopted to determine how capital requirements, business development, job creation, management development, and local participation goals might occur or be brought about in enterprise zones. The approach focused on large businesses, financial institutions, local officials and small businesses -- with the legislative goals providing a guiding framework.

The specific approach taken was based on the following information objectives:

- To hear from the wide variety of necessary participants in an enterprise zone
- To elicit candid opinions, reasoned views, and pertinent experiences relevant to the incentives proposed by the legislation
- To identify both small and minority business decisions and likely effects within and outside of possible zones.

The Approach

With these objectives in mind, the task force chose the following sequence of study steps:

1. A Literature Review. The task force began its work by examining in detail the legislative proposals for enactment of an enterprise zone concept - from the Federal

level. The analysis of these bills showed that business development, job creation, and economic development were the major goals of all the legislation proposed to date.

2. Interviews With Experts. To develop background information for field trips, the task force met with several people in Washington, DC. Primary among those interviews were meetings with members of the staffs of the primary sponsors of the Kemp-Garcia Bill. Additionally, meetings were held with public interest groups or non-profit organizations that had done some background work in the enterprise zone legislation area. This step led to a clarification of the study focus and recognition of the importance of measuring unique features of minority business. At this point management development, zone management, and monitoring could be seen as important issues worthy of inclusion in the study. These areas were then added to capital requirements, labor, and local participation to comprise the core areas for field research to reach the study objectives.
3. Survey Site Selection. Given a limited amount of time and in light of the breadth of the mission, sites were chosen based on city economic characteristics and the expressed interest of potential participants in an enterprise zone. Sites selected are listed on page 17.

4. Data Collection Method. In this step, an informal discussion guide was developed. All potential enterprise zone participants (e.g., local officials, executives of large companies) could have input in the development of final enterprise zone programs. This led to a common set of issues that guided the wide range of discussions held. Those issues included, but were not limited to:
   - Fundamental reactions to the existing enterprise zone proposals
   - The question of what size business, e.g., large corporations or small (less than 50 employees) establishments would be most likely to contribute to either the job creation or business development goals of enterprise zones
   - The question of whether minority business ownership should be required in a zone
   - Zone development issues based on:
     - Industrial Classification - Given certain tax incentives, which industries will find the incentives attractive? Are there differences between manufacturing, wholesale, and retail? Among manufacturers, are there differences between high technology or heavy manufacturing firms? Will professionals be attracted, and will this benefit the zone?

- Capital Intensive vs Labor Intensive - Which type of business do the existing proposals support? Also, what skill levels are needed? How does type of industry and skill level needed influence the net benefit to residents of an enterprise zone?

The discussion guide included in Appendix 2 was developed prior to site visits as a rough guide to interviewers.

5. Field Visits. Nineteen cities were visited. In total, the task force individually interviewed more than:
   - 80 minority businesses
   - 30 major corporations
   - 50 business and trade associations
   - 40 financial institutions
   - 13 neighborhood organizations
   - 100 local government officials.

In addition, many other people contributed to the task force in small meetings and informal discussions. A team approach was used. At least two task force members visited each city. Detailed notes were taken by each member. Usually tours of the proposed zone sites were also made. Upon completion of each city visit, each task force member prepared an extensive summary based on the field notes. This summary was reviewed by

TABLE 1

Cities Visited During the Study

City	Number of Interviewers	Date of Arrival	Number of Days
Hartford, CT	5	7/15	2 1/2
Richmond, VA	2	7/20	2
Boston, MS	2	7/20	2 1/2
Indianapolis, IN	2	7/27	2
Cleveland, OH	2	7/29	2
New York, NY	2	7/27	2 1/2
Providence, RI	2	7/30	1 1/2
Miami, FL	2	8/3	2
San Juan, PR	2	8/5	2 1/2
Detroit, MI	2*	8/3	2
Minneapolis-St. Paul, MN	2*	8/5	2
Greenville, MS	2	8/17	1 1/2
Jackson, MS	2	8/19	1
New Orleans, LA	2	8/19	2
San Francisco/Oakland, CA	2	8/16	2
Los Angeles/Compton, CA	2	8/18	3

* These visits included an interviewer from the Department of Housing and Urban Development working on Enterprise Zones.

each of the other task force members. The data base served as the central resource from which the findings, the conclusions and the recommendations were drawn.

6. Analysis. An organized approach to handling the large amount of information generated from the field work was needed. Accordingly, each major issue was initially examined by one task force member using the field report summaries. Each issue was then cross-analyzed, and refined by the full team. This process resulted in findings within each of the five study areas and recommendations that are comprehensive and reflective of the consensus of the task force.

Central Issues Identified

In light of the common goals set forth by the major legislation previously discussed, and the early expert interviews, the task force identified five issue areas requiring investigation and analysis to determine the effects of enterprise zones on small and minority businesses. These areas are:

1. Capital Requirements
2. Management Development
3. Labor
4. Local Participation
5. Monitoring

While these five issues were identified through analysis of proposed legislation and through early discussion and reading, the field responses confirmed their appropriateness. Wide ranging and non-directed discussions would turn to one or more of these issues regularly. The issues are thus used as chapters in the findings and in the recommendations which follow.

IV. FINDINGS

Some general findings are noted here, followed by the five identified issues. For brevity, repeated reference to specific interviews has been minimized.

Opinions varied as to what pattern is likely to happen within a zone if business development occurs. The most frequently accepted pattern given the Kemp-Garcia incentive package is as follows:

1) Large existing businesses will locate profitable divisions or branch operations in the zone if appropriate land, labor and transportation exists or can be created. This includes capital or labor intensive manufacturing as well as wholesaling or distribution.
2) High technology young businesses with high growth potential and high profit are a second likely prospect. These are more dependent on quality of local labor, availability of financing, and general infrastructure. Hence they may follow.
3) When stable local economic conditions and a local market are established, retail, service, and professional businesses will enter with acceptable chances of success. Other studies indicate that crime level, quality of schools, local transportation, etc., are important criteria for small business location decisions.

The foregoing progression is important as many respondents identified local ownership as a means of keeping profit and decision making within the zone. Local ownership was seen by respondents in Miami as a key to gaining resident commitment.

A. CAPITAL REQUIREMENTS

This section on Capital Requirements is the first of five discussions that comprise the results of the study. The discussions present the major findings in each issue area and the evidence supporting those key points.

The accomplishment of enterprise zone objectives, in the final analysis, will largely depend on business location, formation and expansion. This requires that adequate financing be available. Whether a business will succeed in obtaining this financing, will depend largely on the availability and cost of debt and equity capital. This is a particularly important issue for small and minority firms.

Many factors will influence the small and minority firms' ability to obtain and retain sufficient capital. These include such things as the tax code, the structure of debt and equity markets, public financing programs, e.g., loan guarantee programs, and the overall economic condition of the nation. The enterprise zone legislative proposals use tax incentives as the principal instrument to stimulate capital investment in the zone. By lowering taxes, additional cash flow should accrue to profit-making firms from smaller tax outlays and serve as an incentive to locate in economically distressed areas. It is also anticipated that the increased cash flow created by tax reduction will encourage banks to lend to businesses that would locate or expand within the zone.

These business and tax incentives include such items as:

- Employee tax credits
- Business tax credits on wages, interest earned on loans, and investment tax credits
- Optional accounting techniques
- Elimination of capital gains for new businesses and investors
- Regulatory flexibility.

Approach

The task force discussed the tax incentives with the potential key participants on both sides of the equation -- the anticipated providers of capital and the intended recipients of this capital. Specifically, we met with:

- Financial institutions, investment firms, and venture capitalists
- State and local government officials
- Major corporations
- Small and minority business enterprises.

Objectives

As the enterprise zone approach emphasizes tax and regulatory relief, the respondents were asked to comment on these incentives. The task force's major objectives in this effort were to determine:

- The degree to which small and minority businesses have limited access to the capital markets for capital formation and retention

- Whether the business and tax incentives will be sufficient to attract the involvement of the private sector.

Key Findings

The task force generally found that tax incentives would be of limited importance for business participation in the enterprise zone. However, it also noted that the general business climate regarding the affordability of financing must improve first, before any discussion of business and tax incentives becomes relevant. Hence, the task force found a general pessimism about zone success unless interest rates decline. This is a vital point which must be emphasized, as it can overwhelm any potential for success of zones in general. Beyond these general concerns, the specific findings are discussed under two topics:

- Business-oriented tax incentives
- Investor-oriented incentives.

Business-Oriented Tax Incentives

- Tax incentives related to profits were attractive to larger, established and profitable businesses.

  The tax incentives considered in the Kemp-Garcia enterprise zone legislative proposal were attractive to larger, established and profitable firms as they permit retention of earnings. This was particularly true of tax reductions based on profits such as the

50 percent exemption of income tax. Certain taxes unrelated to income were also deemed important, including property taxes. Moreover, a spin-off benefit of larger business participation was perceived by minority businesses. They believe they could benefit from corporate participation within the zone through joint ventures and procurement contracts. It was recommended in several cities that tax credits be considered for contracting to minority firms in the zone. Similarly, credits for entering into joint ventures with enterprise zone firms were also proposed.

- Tax incentives were less attractive to small and minority businesses.

The tax incentives were believed to be less beneficial to small and minority firms. This is especially true of incentives that reduce taxes based on income, because minority and most business profit levels are lower. For businesses which are not substantially profitable for the first 5 to 7 years, this is an even greater reality. However, for expanding smaller businesses already turning a profit, lowered taxes would be advantageous.

- Reduced payroll taxes were believed to be the most significant tax benefit for minority and small businesses.

Reduction of taxes that discourage employment were vigorously supported by minority businesses.

Generally, reducing regressive taxes, i.e., those not based on income levels, would be helpful to minority businesses. The smallest businesses were the most outspoken, including those in Detroit, Boston, Los Angeles, and Hartford. Specifically, these payroll tax recommendations were offered:

- They could be exempt in the enterprise zones
- They could be deferred as was suggested in Boston
- A refundable income tax credit could be offered. However, the credit should be received at the same time intervals as the payroll tax payment rather than once a year.

- Tax incentives to be used by minority businesses would have to be simple and uncomplicated.

Minority businesses were concerned that the incentives would be complex. In order to take advantage of these incentives, substantial legal and accounting assistance may be required. This was a particular concern of the small retail minority business.

- Minority business was concerned that general tax reductions in the enterprise zone could be detrimental.

Minority businesses and minority business support organizations, especially those located in potential enterprise zone eligible areas, generally had ambivalent views toward the proposed tax incentives. Although they expressed support for proposals to reduce tax payments, they felt that the greatest beneficiaries would be highly profitable and larger companies and possibly capital intensive and technologically-based industry. Some viewed labor related incentives as encouragement to labor intensive industries. They generally supported tax mechanisms that would distribute the advantage to small and minority firms.

- Minority businesses were concerned about the impact of major corporate entry into the enterprise zones.

Since the enterprise zone legislative proposals are heavily oriented toward reducing taxes, and large businesses have heavier tax liabilities, many of the minority businesses emphasized the positive and negative aspects of corporate entry into the enterprise zones. On the positive side, entry by major corporations could lend greater stability by serving as an anchor to the zones, especially during the initial stages of zone growth and development when a viable local market may not exist. Export based companies (i.e., those with markets outside of the zone) may be the most valuable for zone development. Those companies could represent a potential market for existing minority firms and provide the impetus for the development of new ones as well.

Minority businesses also expressed some concern that small business presently operating in enterprise zones would be unable to compete with larger establishments, which may cause minority firms to leave or become unprofitable, thus encouraging displacement of minority business. Businesses acknowledged that a dynamic enterprise zone economy will naturally include turnover, entry and expansion of growing firms, as well as exit and decay of less competitive firms.

Respondents were concerned about the permanance of new zone businesses, suggesting that they may leave after taking advantage of the incentives, engage in speculation or not employ local people. In Puerto Rico, where there is extensive experience with tax incentives, significant entry by large business has occurred, creating employment for residents. However, changing incentives have produced movement of these businesses, and development of new small businesses has not been great.

In general, small and minority businesses favored large business entry under certain conditions. Their entry should be encouraged if they create jobs for local residents, particularly when firms are labor-intensive and require skills existent in the community. Second, businesses that bring and recycle revenues in the enterprise zone should be encouraged. Third, the business that provides goods and services to surrounding businesses and residents should be encouraged. Finally, and most frequently mentioned by minority business; major firms entering the enterprise zones should provide tangible benefits for minority business development through procurement, technical assistance and joint ventures.

Investor-Oriented Incentives

- Tax incentives should be immediate and substantial to stimulate the availability of equity investments in enterprise zone firms.

Tax incentives for high risk equity investments should be "up front" or at the time of investment. Equity incentives must differ from debt incentives due to a distinction in the objectives of the two investor groups. While debt holders are most interested in safety and certainty of principal and interest, equity investors are more interested in positive returns on investments, and rapid appreciation of capital.

Equity incentives should also stimulate the flow of money out of conventional tax shelters to economically productive investments in enterprise zones. The tax shelter investments of real estate and oil and gas explorations were frequently mentioned as models or competing investment choices. Incentives in the enterprise zones, according to experienced investors at several sites, e.g., Indianapolis, California, Boston, Detroit, and Minneapolis, should be modeled after such tax shelter investments. The research and development tax credit was also mentioned by an SBIC executive as a model . Specific proposals for tax incentives mentioned include:

- A tax credit for research and development
- A one-year write off of investment
- A pass through provision so that investors would benefit directly from the tax advantages of a credit for operating losses.
- Permiting corporations to invest in Subchapter S companies and by expanding the maximum number of shareholders
- Permitting a larger percentage of capital losses to be written off against income
- Guaranteeing a portion of equity investments or convertible debentures for the first few years.

- Investors found the capital gain incentives to be weak.

In the present Kemp-Garcia legislation, the most appealing incentive to equity investors is the capital gain tax elimination. Although appealing to investors, the capital gains provisions were believed to potentially lead to disinvestment later. They were viewed as ineffective for real development since they provide the tax advantage several years in the future at the point when the investment is sold, as well as possibly encouraging speculation in the enterprise zone. As one respondent noted, it would encourage "getting out" rather than "getting in." Puerto Rico's experience with similar incentives resulted in capital exportation as well as importation. Reinvestment or capital accumulation according to some was not significant in Puerto Rico. Several respondents commented that a "roll over" provision should be substituted for elimination of capital gains, taxes where capital gains taxes would be deferred as long as the gain is reinvested in an enterprise zone.

- Tax incentives to ensure the availability of equity risk capital will be important for investors and small and MBE firms.

There was a clear consensus that access to affordable equity financing was critical to minority business development in enterprise zones. Although the capital availability issues were deemed critical by all groups, they were most prominent in the comments of minority businesses. This is because the minority community does not have the personal wealth necessary to provide seed capital for start-ups and young business expansion. Also since debt service can place a strain on cash flow, minority business respondents were justified in their focus on access to equity capital. Attracting equity capital was also considered particularly critical to growing firms who believed they had a sufficient market to expand, especially in new technologies or industries in which minorities had not participated in the past, e.g., computer services.

Management ability must be present to attract equity capital, however, and investors look for the same set of qualities for minority firms as they would otherwise. For example, a Boston venture capitalist, who specializes in minority business, outlined the following criteria as essential:

- Market for the product
- Quality and experience of the management team
- Expected profit and length of time before the investment can be sold
- Comparison with other investments in the portfolio.

These considerations were consistent with the statements of other investors and lenders. The obvious implications are that, for financing to be provided, there must be evidence of a going and profitable concern; and, that the firm be able to provide a sufficient return to equity investors or likelihood of loan repayment to lenders. The importance of a market and good management is mentioned here to emphasize the interrelation of the issues presented in this report. Capital alone, or management alone are insufficient. They are interrelated needs.

- Financial institutions will not be responsive in providing debt or equity capital resources to businesses in the enterprise zones without appropriate tax and regulatory relief.

The traditional financial institution community expressed interest in investing in firms located in enterprise zones, but only if their return was competitive with other projects. They also noted some potential obstacles to such participation. Special tax regulations of some insurance companies, e.g., mutuals, may make the proposed enterprise zone tax incentives irrelevant. In general, insurance companies stated that tax incentives were less attractive than risk pooling mechanisms to spread risk and provide greater security since their source of funds are insurance policies.

Another limitation on insurance company investments are state regulations which, in some states, regulate the amount of the portfolio that may be held as equity investments. Given that insurance companies are state regulated, such investment incentives must come from the state. Insurance company executives were more interested in:

  - Investment in commercial real estate within enterprise zones

- Incentives to provide insurance and bonding at lower rates to businesses in potential enterprise zones where there typically had been crime and security problems
- Guaranteeing or insuring loans or industrial revenue bonds.

Like the other institutional investors, commercial banks were interested in the return on investment relative to perceived and actual risk. However, institutional and regulatory conditions place limitations on banks. They are only permitted to make loans and cannot take equity positions. Therefore, their return, i.e., interest income, is generally fixed. Bankers in Los Angeles, as well as other cities, maintained that their involvement would be limited because of this regulatory prohibition.

Finally, the pension fund industry, which is the fastest growing institutional source, did not find the tax incentives attractive because they are tax exempt. State and Federal (ERISA) regulations restrict investment in small firms by public and private pension funds. Lifting such restrictions could stimulate investment in minority firms located in enterprise zones similar to a ruling that permits Michigan to use a portion of their pension funds as venture capital. In general, labor groups and pension fund managers were non-committal about pension fund investment in enterprise zones.

- The most powerful incentive for bank lending to small and minority business in enterprise zones is to reduce risk by guaranteeing a portion of the loan.

Both the private pooling concept and government guarantees were supported as critical to bank involvement. However, there was significant criticism of the administration of Federal guarantee programs. Streamlining the process for obtaining the guarantee and reducing the "turnaround" time were verified as necessary improvements and a stimulus to bank lending to minority businesses in enterprise zones.

- It was generally conceded that tax incentives would be less effective than insurance or guarantee provisions in convincing banks' to make loans in enterprise zones.

The incentive in the present Kemp-Garcia legislation for banks is the 50 percent interest income deduction. Most bankers agreed that this would only marginally alter their credit evaluation of a firm. Although the effective return would be greater, the repayment potential would not be altered. It was also stated that many of the larger financial institutions are not particularly impressed by tax reductions. They frequently have tax avoidance strategies and can use a variety of methods to shelter income, including municipal bonds, industrial revenue bonds and offshore foreign banking operations. On the other hand, some respondents especially smaller or local bankers, stated that they saw interest income tax reduction as an incentive for banks to market their services more actively in a zone, and *possibly* and lend at lower interest rates in the zone.

B. MANAGEMENT DEVELOPMENT

General business development is a recurring theme in the various enterprise zone legislative proposals and among the individuals and organizations targeted to be the major beneficiaries of enterprise zones. In particular, the Kemp-Garcia bill identifies business development as one of its three main objectives. The emphasis on business development results from the significant influence of small businesses on job creation and general economic development in the areas in which they are located.

A key overall finding of this survey is that competent and effective management is perceived as a necessary condition for the development, growth and stability of locally based businesses and job opportunities. Therefore, management competence is viewed by all groups in our survey as a prerequisite for business development. Additionally, by providing management development assistance to enterprise zone residents, their level of acceptance and commitment to the types of changes intended to result from enterprise zones can be strengthened and solidified. Despite its importance, the issue of management development is not directly addressed by current enterprise zone legislation. This section of the report addresses how such a component could be incorporated in enterprise zone legislation or implementation initiatives to stimulate management and business development in enterprise zones.

Approach

On a functional basis, the concept of enterprise zone management development can be defined as the provision of management support, training and technical assistance to entrepreneurs and business owners based in enterprise zones. The task force assessment of management development and assistance needs is based on in-depth interviews with a variety of participants in the minority and local business development process. The major information source for this assessment was a series of interviews with the following groups of task force respondents:

- Minority Business Owners
- Business Associations and Professional Organizations
- Federal Agencies and Contractors
- Neighborhood and Community Based Organizations
- Public and Private Education and Training Specialists.

The responses of the individuals interviewed by task force members have been reviewed and summarized to obtain a concensus of opinion concerning the role of management development in meeting enterprise zone objectives.

Objectives

This discussion of including a management development and business support component in enterprise zones is designed to identify the development and assistance needs of (1) potential businesses and (2) existing businesses. For potential businesses, the objectives are, among other things, to highlight the need for start-up assistance, positive role models, and business planning. The focuses for existing businesses are operating efficiency and access to and penetration of markets.

Findings

The key findings related to management development for potential enterprise zone businesses include the following:

- A positive environment for business development is essential.

  The first stage in encouraging the development of minority managers and new businesses in enterprise zones was regarded as the creation of a positive perception of business opportunity. In several cities, minority businessmen mentioned the importance of a business climate that was conducive to business development. Equally important was an honest chance for a business to succeed or fail. Genuinely open opportunities were seen as better than government set asides and procurement programs which have created dependency in the past and have failed to assist minorities in entering the mainstream of business.

- Successful role models can encourage new business development.

  A primary role of management development can be to create an environment that encourages minority entrepreneurs to take risks or to make a commitment to their own business. Several respondents pointed to the importance of successful minority business operators functioning at the local level as role models for youth, other business owners and potential business owners. For example, an owner of a black oriented radio station in New York City reported that he had approached more than 72 financial institutions in order to obtain a loan to finance his station. The subsequent success of this individual has inspired others to seek loans for similar purposes, and many have adopted the radio station owner's approach to obtaining financing.

- Opportunities for direct experience stimulate business creation.

Direct business experience either as an employee or owner was seen as very important. In Puerto Rico, tax incentives attracted outside companies to the island. Many of those companies currently employ Puerto Rican natives in second level management positions and the trend is for an increasing number of these natives to leave and start their own business. Similarly, it was suggested that management assistance should be focused on experienced entrepreneurs who have previously owned businesses that may have failed, since they could gain more from such assistance than inexperienced entrepreneurs.

- A sound understanding of general business practices is essential to successful business development.

There were numerous indications that minority business owners in general need a better understanding of the business culture. A minority banker in Providence said a major problem with minority loan requests was that they were poorly prepared; indicating a lack of knowledge about what kind of information was needed to obtain loans. Accordingly, what is frequently perceived by minority business owners as discrimination is actually the negative response to a lack of preparation. An officer in a New York bank concurred with this assessment. His bank has established a special department to review small business loan applications which had been rejected at the branch bank level to determine whether the rejection was due to poor preparation or poor understanding of bank requirements. Many bankers shared the perception that many minority members, especially the urban poor, were outside the banking system and general business culture. As a result, they did not know how to approach banks or majority business.

- Indirect management or technical assistance should be provided either from local, private or public sources.

Small business operators indicated that they expected to be informed about the enterprise zone and its features from the city, and to receive management assistance when needed from the SBA or MBDA. However, there was concern over the effectiveness of the management development assistance provided by such Federal agencies. One suggestion for improving the effectiveness of management assistance was for MBDA to target its business development efforts on the penetration of growth industries or markets. Other technical assistance suggestions which would require minimal capital commitments included the following:

- Provide loan preparation and planning assistance to new businesses through the urban services departments of banks or from local loan officers
- Development assistance for new businesses from community development organizations
- Training for potential business operators through either vocational/technical centers or regular local schools
- City sponsored flea markets or "incubator" space with management or technical assistance to show people how to get started in business
- Develop central collection or marketing systems to aid in the development of local cottage industries
- Establish coalitions consisting of national foundations, local business groups and schools

to provide leadership training or business development advice

- Encourage large majority business to "adopt" and develop one or more minority businesses, or at a minimum to conduct more business with minority businesses located within the zone.

- Direct investments by major businesses can assist in management development and new business start-up.

One or more large businesses entering an enterprise zone can serve as "anchors", around which support oriented satellite businesses could develop. Additionally, large companies could be encouraged to create joint ventures with minority enterprise zone residents. For example, in Miami, where 57 percent of real estate sold in Dade County last year was sold to foreign investors, a joint venture between foreign investors and local minority businessmen could be developed. A large business could also be encouraged to aid spin-off business established in the zone.

- Tax incentives could be used in a zone to stimulate private businesses to provide management development and technical assitance.

Because of the interdependence between management development and financial incentives, tax credits could be structured to facilitate new business creation.

For example, tax credits could be offered to large companies for establishing zone satellite businesses, which would be managed by local minorities. Part of the compensation to the managers would be in equity, and the value of the equity paid to managers could be given special tax credit treatment. Tax credits could also be given for money invested in zone joint ventures. Finally, large corporations could be encouraged to place more levels of vertically integrated operations within the zone through selected taxation on the reallocation of profits generated within the zone. More variety in the operations of a large business performs in a zone demands more variety in local support businesses. Experience in Puerto Rican development confirms this.

Existing Business management development is also necessary so that existing businesses can either expand, attract capital, or operate more efficiently. As with aid to potential entreprenuers, a number of local sources of management and technical assistance were identified which could be part of a local commitment. Community based organizations, financial institutions, brokerage houses, Chambers of Commerce, and business associations were proposed as sources of management development aid, either through university seminars or direct assistance. Such efforts can be justified by financial institutions, city government, or professional services as a sound practice for the development of new clients. National organizations could also be brought in for special assistance on an as needed basis. Minority small businesses already existing in a prospective zone would need two types of special help from any of these sources.

- Information about the legislation and its expected impact, including potential problems such as rising rents, displacement, or increased competition.

- Management assistance to facilitate expansion especially in those instances where expansion is necessary to qualify for zone incentives.

Other broader issues of support and management development for minority business which exceed the enterprise zone concept include:

- Assistance in gaining access to other markets.

  This can be in the form of technical assistance, or as direct aid from other firms in the form of a line of credit or immediate payment for goods and services.

- Aid for expansion to new locations.

  Such expansion would allow minority firms to enter markets in prosperous non-minority areas.

- Tax credits for neighborhood assistance a business provides.

  This could include job training or business management and technical assistance in an enterprise zone.

- Vouchers for minority small business which could be used for market rate management or technical assistance.

  The business could pay for some part of the expense with the remainder supplemented by a Federal agency. For example, Control Data currently provides technical assistance to businesses in several cities which is financed 90 percent by SBA and 10 percent by the client.

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Management development for both potential managers and existing ones was seen as a critical element to the success of the enterprise zones, if success is to include the local residents. Instant new businesses are not expected. In fact, it was acknowledged that locally based business development in enterprise zones may take a full generation. However, without support, local residents and businesses are likely to feel exploited and thus resist permanent change. MBDA or other support programs are not expected to perform miracles, but they should at least facilitate development by the potential and operating businesses present in enterprise zones.

C. LABOR

Job creation is one of the three major objectives of legislative proposals for the establishment of enterprise zones. The primary target groups for enterprise zone jobs include individuals eligible for CETA, teenagers, and the chronically unemployed or under-employed.

Given the primary goal of job creation in distressed areas, three secondary objectives were expressed by most respondents. Those objectives included:

- Information dissemination as to types of jobs available
- Information for identifying potential applicants to fill the jobs
- Provisions for training to produce skills and attributes required for permanent jobs.

Respondents also identified two major constraints on job creation which included: (1) the high cost of training or retraining in a changing and shifting economy and (2) the replacement of newly created jobs by sophisticated automated equipment as technology advances. If a serious attempt is to be made to balance the equation of "businesses equals jobs", and provide incentives for both employers and employees, realistic expectations should be agreed upon as to what each participant is capable of providing. This section is designed to assist in establishing those parameters.

Approach

The task force assessment of enterprise zone labor requirements and job creation potential is based on interviews with key participants in the employment process. Specifically, interviews were conducted with individuals in the following groups:

- Neighborhood and community-based organizations
- Organized labor
- Public and private education and training specialists
- Minority business owners
- Major corporations and non-minority businesses.

The findings presented in this section reflect the major opinions of the groups interviewed with respect to employment and job opportunities which could evolve from the successful implementation of enterprise zones.

Objectives

The purpose of this group of findings is to identify key labor-related issues which prospective enterprise zone participants believe must be resolved in order to gain the greatest benefit from the establishment of enterprise zones. The topics discussed in this section included: labor availability, identification and coordination of employment skills with business needs, job advancement and stability, employee turnover, vocational skill training and upgrading, and the role of organized labor. An assessment of each of these areas is essential to meeting the general enterprise zone objective of providing jobs in depressed areas, reducing unemployment, and expanding local employment tax bases.

Findings

Inherent in the consideration of the job creation objective are several critical issues which concern enterprise zone employers, employees, and community groups. Many of these issues were examined in depth in relation to current legislation with the following major findings:

- A requirement to hire 40 percent CETA eligible employees, e. g., Kemp-Garcia, will act as a disincentive to business, particularly small business.

  For example, a black businessman in Hartford said that it is difficult enough to manage a small business with experienced employees. If he were forced to have inexperienced trainees for 8 of his 20 employees, he doubts he could survive. Additionally, other experienced employees might have to be hired to train the new personnel and the 5 percent tax credit in the bill would be inadequate to defray the training cost. It was thus recommended that CETA eligibility requirements be reduced for small firms. If businesses were required to meet minimum wage levels or Davis-Bacon requirements, the cost of hiring and training of CETA eligibles may become more prohibitive. One solution suggested was to have lower minimum lower wage levels at job entry for teenagers.

Since many respondents did not believe the 40 percent CETA eligibility requirement would ensure jobs for the area unemployed, concern was expressed about creating employment opportunities for local residents. Additionally, CETA eligibility requirements provide no employment assistance to the working poor and underemployed. A possible solution would be to offer all enterprise zone residents the "right of first refusal" on a competitive basis with each other for available jobs. Business could be encouraged to make this offer in return for State and City incentives acceptable to them prior to locating in the zone.

- Labor skill requirements and training costs were found to differ significantly among firms and industries.

The 5 percent jobs tax credit does not adequately address the differences in labor requirements among industries. A more realistic incentive would be to provide tax benefits to defray training costs for the required skill levels of the available jobs. Firms indicated the most desirable training is on-the-job rather than classroom training.

One method of providing such help has been devised by the State of Connecticut which has established an Interagency Coordinating Committee comprised of representatives from the Department of Labor, the Employment

Training Office, the Department of Economic Development and Corporate Prime Sponsors. The program provides training vouchers to zone residents, which may be presented to a company or training center at a specified value for special on-the-job or shop training at qualified locations. Other recommendations from the respondents included a Boston suggestion of up to a 100 percent write-off to businesses for the cost of training disadvantaged workers.

- Lower wage rates for entry level jobs are believed to create as much, if not more, incentive for business location and job development in enterprise zones as tax incentives.

This perception was shared by nearly every group interviewed and particularly minority groups in discussions concerning job opportunities for youth. This finding is also supported by the successes of enterprise zones in other countries such as Hong Kong, Singapore, and Puerto Rico.

While this concept was generally accepted, most representatives of organized labor were very reluctant to support any proposals for reductions in wage rates prior to discussions with their administrative officers. The concensus among labor representatives was "don't change anything."

- A major concern of enterprise zone residents was the possibility of job displacement of community residents.

Respondents questioned to what extent business growth might cause "gentrification" and shift segments of the existing zone population to other areas as economic activity increases. It was a general consensus that enterprise zones should be designated in areas where the displacement of welfare recipients and the unemployed would be minimized. Training and local labor force skill development is an essential safeguard against displacement.

- Minorities want the opportunity to participate in the acquisition of wealth generated within their areas.

As stated in the discussion on management development, most minorities believe the major cause of minority entrepreneurial failure is the lack of management expertise needed to attract risk capital. Accordingly, it is important to go beyond entry level training for new employees in enterprise zones. The additional training should include management courses to facilitate job upgrading and eventually graduation to minority entrepreneurial status, such as resulted in Puerto Rico.

Additionally, training should focus on changing the negative perception held by many minorities, particularly blacks; of the quality of goods and services which are provided by minority entrepreneurs. Because of this perception, minorities frequently prefer to support majority enterprise outside their own areas. This preference has an adverse impact on economic growth and independence in predominantly minority areas. Because of these perceptions and their impact, many minority business owners desire the retention and expansion of government assistance programs such as SBA's 8(a) Program to maintain their business activity and jobs. Because of these deep-rooted beliefs on the part of both minority consumers and minority business owners, the suspension of such programs is felt to imply racism.

- The work force of potential enterprise zones has special requirements which involve additional investment to motivate both employers and employees to participate.

To ignore such requirements would make it difficult to achieve the objectives of the enterprise zone concept. For example, since distressed areas have a higher percentage of single heads of family, they have a higher demand for special services to create satisfactory work attendance and reliability. Employers may seek tax benefits to provide specialized services such as child care centers, counseling, and regular educational programs. These services may include flexible work schedules to accommodate parents of young school age children or young people and young adults seeking continuing education.

- The transfer of job information between employers and potential employees must be improved.

State employment offices received the bulk of negative complaints and were referred to as "merely check-dispensing" institutions. Accordingly, it was indicated that such offices are rarely utilized by either employer or employee to match jobs or to assist in job classification and referral activities. One solution recommended was to implement a computer job data and job placement incentive system similar to that used by private "head hunters." Counselors could be awarded a bonus for permanent job placements lasting a specified length of time. Another possibility suggested was to reduce the state employment departments and contract job placement to professionals with a track record on a cost sharing or fee basis.

- Stagnant or declining industries should not be encouraged to locate in enterprise zones.

Incentives for such businesses would prolong the inevitability of structural unemployment. In particular, heavy industry without true competitive status should be discouraged due to the inability of U.S. industry to compete with lesser developed countries in terms of labor rates or with other industrial countries, i.e., Japan and Germany, in terms of industrial mechanization. The emphasis in enterprise zones should be on services, information, high technology or other industrial classifications for which long term growth and stability are forecasted.

In addition to the basic issues concerning job creation in enterprise zones discussed above, respondents made several legislative and implementation recommendations to encourage employers and employees to participate in enterprise zones. Such recommendations included the following:

- Requirements for large corporations to rehire laid-off workers prior to hiring new employees - e.g., CETA workers in enterprise zones, must be resolved to encourage corporate participation.
- As an incentive for employees to remain with a company in an enterprize zone employers could be exempt from income tax withholding and IRS could credit employees for the amount that would have been withheld. This results in a lower labor cost to the employer plus more income to the worker.
- Organizations or local businesses could be used to train construction, office, or industrial workers from local areas in advance of need.

They could also act as liaisons for underground business to enter the formal economy which would make them eligible for business training and expand the local tax base.

- Small business technology centers could be located in zone areas as an aid to minority business development and encourage non-union businesses. Similarly, vocational training and business assistance programs could be established with local colleges.

- A "G.I. Bill" approach could be used as an incentive to hiring for on-the-job-training; 100 percent subsidy the first six months; 50 percent for the second six months; and 30 percent the third six month period with a joint agreement between employer and employee for a job and retention for two years. The job credit could also be increased to 10 percent instead of 5 percent to encourage employees to stay on the job.

* * * * *

Job creation, and employee training and retraining were perceived as second in importance to capital formation in enterprise zones by all groups interviewed. Development of the reservoir of untapped labor presents a formidable challenge in the enterprise zone program and one that some view as imperative to the containment of crime and possible civil disturbance as well as the future growth of urban economies and the national economy. Regardless of the ultimate configuration of enterprise zones, all respondents urged that the enabling legislation not promise a panacea for unemployment and poverty but that it be approached as an experiment with maximum entrepreneurship and employment opportunities.

D. LOCAL ACTION

Central to the implementation of the urban enterprise zone concept is the major role local communities are intended to undertake. This local orientation is a common thread throughout the major enterprise zone legislative proposals. For example, Kemp-Garcia (HR 3824) places a heavy responsibility on local involvement and support by conditioning the Federal designation of local enterprise zones on local participation, including:

- Commitment by local government to reduce the various burdens borne by employers and employees by:
    - A reduction in tax rates or fees
    - An increase in the efficiency of local services
    - Reduction in governmental requirements on employers and employees
    - Agreements from private entities in the area to provide jobs, job training and technical, financial or other assistance
- Demonstrating local support and commitment from community residents, local businesses and private organizations.

Not only do the legislative proposals contemplate a significant level of local support and participation, but nearly all require evidence of such support as a criterion for the provision of Federal benefits to designated local enterprise zones.

Approach

Considering the varied components to the success of implementing urban enterprise zones, task force members sought a wide variety of input from the local communities to determine what definitive and anticipated roles these participants will assume. These participants included:

- State and local elected officials
- Neighborhood organizations and community-based organizations
- Federal agency officials
- Financial institutions, investment firms and venture capitalists
- Business and professional trade associations
- Small and minority business owners.

Objective

Local responsibility will be a major factor in the design of enterprise zones. In an effort to understand prevailing attitudes, the issue of local participation was addressed with the intent to:

- Establish the degree to which effective state and local commitment and support rests on the resource and infrastructure base of localities
- Determine the need for proper zone management and controls

- Assess the need for zone marketing to ensure local business involvement, investment or business relocation.

Key Findings

Generally, localities understood the local emphasis of the enterprise zone proposals. The key considerations that emerged which could provide the foundation for effective local participation are discussed below and include:

- Local commitment and support
- Designating the zone
- Zone management
- Zone marketing.

Local Commitment and Support

- Local commitment and support are varied.

  It was found that local commitment can come from several areas: local and state tax exemptions, school systems oriented to industrial development, financial and private sector enterprise. In addition, labor organizations, private industry councils, and local chambers of commerce expressed interest in facilitating enterprise zone development through the commitment of local resources.

- A satisfactory infrastructure must exist for zones to be attractive for business development.

In addition to having satisfactory sewer systems, water, power, roads, fire and police protection, schools and social service delivery systems, the area must have land available for industrial, commercial, and retail site development. However, the cities visited showed variations in their ability to provide this local commitment.

For example, in New Orleans, city officials indicated that because of their small tax base, it was unlikely that adequate funds would be available for infrastructure development. Property taxes in that city were extremely low, with one percent of local taxes coming from homeowners, 39 percent from renters and 60 percent from business. Government structure made any change in this base unlikely. Furthermore, local development in that area is heavily influenced by the upcoming world's fair to be located in an old waterfront industrial area. The most distressed area of New Orleans, the Desire District, needs major infrastructure development, but this is unlikely given the New Orleans tax situation. Without such development, the chance of success of an enterprise zone there was seen as low in the eyes of people interviewed there.

Mississippi, on the other hand, presents a different situation. Mississippi has 82 counties, with only one city having a population of over 50,000. Consequently, it was suggested that an enterprise zone might cover a 12-county area, with specific pockets of poverty in those counties considered as enterprise zones. Thus, it is likely that local funds could be used for infrastructure development in those specific areas designated as enterprise zones.

Private sector interests indicated a willingness to share in local commitment efforts for enterprise zones through urban development, by such means as providing insurance at subsidized rates and utilities considering reducing their rates to MBEs and small firms in enterprise zones. Support from financial institutions could be accomplished by their lending locally to deserving small and minority businesses through venture capital pool funds, or existing urban lending departments of local banks. Specific suggestions for financial support include:

- The creation of a loan pool by banks and insurance companies,
- Lower interest rates on loans within a zone reflecting the higher profit on such loans given available enterprise zone tax incentives.

- *State and local support through tax abatement and regulatory relief must be fostered to attract private business participation.*

While there have been a varied number of state proposals and enterprise zone plans, the intent of these legislative initiatives are clear -- an attempt to stimulate increased private sector investment through such incentives as *tax abatement* and *regulatory flexibility*. An illustration of some of these *key incentives* by the states and localities include, for example:

- *Special Accounting Techniques* such as an optional loss carryover/forward, cash accounting to reduce paperwork, and straight line depreciation.
- *Property Tax Relief* in anticipation of increased property value of renovating the buildings, plants, and land.
- *Tax Credits Against Income Tax Liability* such as property tax credits against employers' state income tax liability, job credit where the employer deducts a fixed percentage of payroll costs and takes a standard deduction above current deductions for creation of "new jobs", and neighborhood assistance to an impoverished area.

- Capital Gain treatments from elimination of capital gains tax to a phased-in reduction of such tax.
- Regulatory Relief such as zoning, rent control, wage and price control.

Designating the Zone

- Zone designations by localities will raise concerns about the community (business and residential) welfare.

As defined in the Kemp-Garcia enterprise zone legislation, zone size is relatively open, bound only by the constraints that there must be (1) a minimum of 4,000 people if a standard metropolitan statistical area is used, (2) 2,500 people in any other case, or (3) an Indian Reservation as determined by the Secretary of the Interior. Moreover, the area should also be one of pervasive poverty, unemployment, and general distress. There should also be contiguous boundaries.

Discussions of zone boundaries consistently raised concern regarding the welfare of residents of the zone area and their participation in the zone benefits. Comments ranged from lack of concern about local minority business in the area (it was felt the job generation effort would offset any displacement of existing business that would occur) to those who felt that the bill is aimed at helping local residents, so they should be the principal recipients of all benefits. To achieve the maximum benefit for zone residents, incentives may have to be available for out-of-zone firms. This would require a flexible approach to zone boundaries.

- Local residents expressed a serious concern for displacement as a consequence of local designation of enterprise zones.

  This concern was raised because local people felt that when zones attract large businesses, local property value would increase, and locals will be forced to leave either by the new landlords or by their inability to afford new rent or house payments in that area.

Zone Management

- Zone management will be an essential success factor in the implementation of enterprise zones.

  The issue of zone management is not specifically addressed in the various legislative proposals on enterprise zones. Nevertheless, because cities will have a major administrative role, (providing tax exemptions and increased city services) they logically will have an interest in zone management.

  At the same time, because the success of the zone depends on private enterprise moving into designated zone areas, business groups will undoubtedly be concerned about zone activities. Local development corporations and community groups, because they work and live in the zone, also have an interest in zone management. Finally, financial institutions who will be encouraged to finance zone enterprises also have an interest. The question then is what type of zone management structure could facilitate these varied interests?

During the interviews, every group indicated that if a zone were to be managed, each interest group would want some representation. Most groups agreed that any zone management would have to include representatives from all the affected parties.

- Different approaches to zone management could be applied to the operation of enterprise zones.

Specific management concerns would require adopting approaches to minimize anticipated problems such as minority business exclusion, displacement of small and minority business, unfair competition for existing business, and unplanned land use causing long-range damage to the neighborhood. Local commitment by government and industry can be focused through management to alleviate these problems. Also, accountability will be critical to maintain enterprise zone status.

Depending on the form an enterprise zone takes, the management of the effort will vary. On one end of the spectrum it was suggested that a zone be unfettered by "bureaucratic red tape, free to operate on its own." On the other end, it was suggested that zones be tightly managed and orchestrated, with penalties and rewards as warranted to businesses selected for the zone. Various approaches to zone management that emerged included:

- Laissez-Faire Management

  The "Laissez-Faire" approach of zone management limits the city's role to providing incentives for business development. This approach suggests that through the natural business process, some businesses will succeed while others will fail, but there will be no artificiality in zone development. Hence, minorities and small businesses will get their share if they deserve it.

- Management By Industry Class Inclusion

  This approach was used successfully by Puerto Rico in attracting businesses to its tax free program. The Industrial Incentives Act of 1948 exempted from Federal taxes certain firms that started subsidiary manufacturing operations in Puerto Rico. This Act did help develop jobs in Puerto Rico, but there was no significant gain to Puerto Rico in terms of capital development.

  This approach to zone development would limit zone management to a selection function and a monitoring function, at a minimum. However, based on discussions with representatives of the Puerto Rico Economic Development Administration, a large commitment was also made to marketing Puerto Rico as a place attractive for manufacturing businesses.

In Mississippi and New York, there was support for this approach to zone development and management, primarily because it would minimize the zone boundary problem, and it would focus the bill to industrial development and job creation.

- Local Government Management

Many of those interviewed suggested that the local government entity sponsoring an enterprise zone should have primary responsibility for its management. They point out that because local government is concerned with the overall economic development of its area, it is better able to design a program that meets specific local and community economic development needs. Further, the local government would be providing incentives and additional local services and would be in a strong position to monitor zone activities and reporting requirements, exacting penalties and rewards as appropriate.

As part of its management responsibilities, the city would do zone marketing, advertise zone job opportunities, and ensure that community groups participated in zone planning and oversight. The local government could also provide any available Federal grant funds as well as CETA support, and coordinate its zone activities with other Federal and city programs for local economic development. Also, because some local governments own land, the land could be used as a tool to negotiate deals to encourage local business development. Even boundary designation could become a management tool.

- Private Management

Professional managers oriented toward producing for efficient results were identified as another approach. These zone managers would have the ultimate responsibility and accountability for successful operation of zone enterprises.

One additional approach to private enterprise zone management was the granting of management authority to a special purpose corporation. The corporation would identify sites for development and control their uses. The corporation, as part of its duties, would provide one stop aid to small business persons regarding taxes, regulations, financing, etc.

Zone Marketing

- State and local communities will have the primary responsibility to market the zone concept for acceptance by targeted participants.

Without a successful marketing approach, the enterprise zone will be forced to overcome substantial barriers to acceptance. These efforts will necessarily demand that businesses are aggressively pursued and recruited. Community residents must feel comfortable that they will be, in part, the beneficiaries and not the casualties of the enterprise zones.

In marketing the zone to local residents, it was suggested that community organizations, local development corporations, and churches would be the best source of information as they are closest to the people and trusted by residents. The Federal Government and professional trade associations could conceivably play a significant role in marketing the zone to financial institutions and minority and small businesses.

E. MONITORING

The legislative proposals on enterprise zones speak indirectly to the need for monitoring the zone efforts. These proposals have reserved to the Federal Government, the power to revoke its enterprise zone designation if localities are found to be in substantial noncompliance in efforts to reduce the economic distress in their communities. This would obviously result in the loss of Federal tax and other benefits.

Approach

In addressing the monitoring of enterprise zones, the task force based its findings on discussions with:

- State, local, government officials
- Neighborhood organizations and community representatives
- Business owners
- Federal agencies and their contractors
- Financial institutions.

Objectives

The principal objective regarding the monitoring function was to determine the degree of need and type of monitoring that would be required. Generally, two major perspectives for monitoring emerged:

- Control of zone decision-makers and beneficiaries,
- Monitoring for evaluation of the program.

Findings

The discussions in the field supported the notion that monitoring is a necessary and vital link to any comprehensive approach to enterprise zones. Generally, it was felt that while monitoring is important, it must not be excessive. If so, it would defeat the spirit of reduced "red tape" inherent to the zone concept. Consistency with the enterprise zone concept places accountability at the state or local level. Federal agencies will not operate or oversee zones, but may be called on to guide or establish monitoring procedures. Respondents noted that previous efforts at business or economic development have suffered from poor management or lack of monitoring. Respondents felt the monitoring process should be a shared responsibility between local government, community residents and the affected business community. Sound independent monitoring could actually benefit zone operation. Specifically, it was found that:

- Control of businesses in the zone is needed in order to ensure that they meet the requirements for tax benefits.

  Minorities and zone residents were particularly concerned that appropriate numbers of CETA workers or residents would not be maintained unless monitoring is done more than once a year. It was also stated that effective monitoring and control of either CETA worker-hiring or resident-hiring will be a burden to all businesses located in the zone.

- Monitoring should be linked to specific enforcement powers.

It was advocated that penalties be imposed for violations. For example, if a business fails to meet the labor requirements, a penalty should be assessed, plus the withdrawal of incentives. It was felt this threat would reduce violations. Since violations may also occur due to misunderstanding the eligibility requirements, monitoring is needed to assure that businesses know what is expected.

- Monitoring should be utilized to structure small and minority business participation in enterprise zones.

Because many respondents believed that minority entrepreneurs operate at a disadvantage, monitoring was also suggested as a way of encouraging their involvement. Some localities may not be as receptive to minority participation and would not act without proper encouragement. Monitoring could provide such an incentive.

- Early evaluation of enterprise zones will signal success models for possible utility in other localities.

The zone program has repeatedly been referred to as an experiment. It was indicated that measurement was needed to demonstrate whether a zone can be successful, and if not, what changes are needed. Regarding evaluation, respondents suggested that there should be written criteria. A New York banker emphasized a point heard frequently, that evaluation is better if there are more limited goals. If this legislation is to aid large organizations directly, jobs should be measured. If the primary beneficiary is to be small business, local equity and number of firms assisted should be measured.

- While independent monitoring is emphasized in the results, reasons for other forms were provided. Other models and their support include:

    - The Federal Government should do monitoring to avoid local corruption, reduce the influence of those with vested interests, and to facilitate the use of quarterly IRS reports which are already required. This would avoid duplication of reporting and the need for additional city staff. Since the Federal Government provides the incentives, it should have the data to remove them when warranted.
    - Local Government should do monitoring because it can respond to unique situations. If the city owns zone land it can have sanctions to make monitoring effective. This would also be true if the city had power to negotiate

individual zone contracts with businesses for receipt of benefits included in the local commitment. Monitoring by the city is also justified, as it minimizes the Federal role, and avoids interference by state government.

- The Local Community or a Local Board should do monitoring as this is intended to be a program with localized decision-making and control. Such a board, important to zone management, would be composed of business representatives, residents, financial institutions and possibly local government.

- Monitoring could be used to minimize concern over business displacement.

Respondents saw several possibilities for displacement through unfair competition. First, rising rental costs for existing local business could force them out. Second, a large chain store could move into the zone and bringing efficiency and product diversity which an existing small business could not match. Third, a competing firm could enter the zone as a new business, qualify for tax incentives, and use its added profit potential to drive an existing minority business out. In each case, monitoring could be utilized to reduce these problems. (It was acknowledged that some business turnover is a desired natural consequence, and should not be avoided.)

V. RECOMMENDATIONS

The Task Force set out to determine the expected effects of enterprise zones on small and minority businesses and the ways to insure positive results for these businesses. It is essential to recognize that a study of this type generates actual data on potential zone sites and on the likely effects, and also provides information on what people believe about their city, the government, business, and ideas such as enterprise zones. The study showed that many small business owners or minority group members believe they will not gain directly from enterprise zones. This belief influences the following recommendations.

As the report is organized around five issues, this section follows the same format. Recommendations follow in each of these areas. In making the recommendations the task force has sought to:

- Identify steps and actions that should be taken by all the participants in an enterprise zone, including cities, states, and private businesses
- Develop remedies that minimize federal government involvement - particularly federal expenditures
- Point out opportunities for MBDA to use it's existing resources in support of small and minority businesses in enterprise zones.

The task force recommendations include in many cases, a potential role for MBDA. These recommendations also include preliminary estimates of federal cost. Each recommendation should be subject to stringent cost benefit analysis before final implementaiton. The recommendations are presented in the same issue grouping as the findings in the main body of the report. Note that these are summary recommendations. Ideas for additional proposals are inherent to the body of the report, including suggestions of respondents indicated there.

CAPITAL REQUIREMENTS

The following steps should be taken by the appropriate parties to generate the capital necessary for new business starts and expansions of existing firms. The actual creation of the needed capital must, in most cases, originate outside the zone.

Recommendations

1. Provide a Significant Tax Incentive For Investment In Minority Businesses

For minority firms to participate and succeed in enterprise zones, equity financing is necessary. However, seed and venture capital is frequently not available for minority business. Task force discussions with the financial community revealed that the existing proposals are not sufficient to attract capital for minority business in the enterprise zones. The incentive must be immediate and significant. The anticipated effective return on equity investment must be at least comparable to existing tax-favored investments in order to stimulate a flow of capital to minority firms.

Two alternative approaches should be considered. First, a tax credit could be provided for equity investments. Second, equity investments could be "expensed" or written off in the initial year. However, the investment would also be treated as a capital gain for tax purposes at the time of sale. Either alternative should be limited to investments only in minority and small firms. Cost to the federal government is based on estimated loss of tax revenue.

2. Establish a Guarantee Or Insurance Pool

A guarantee or insurance fund should be established for the enterprise zone to pool or diversify the inherent risk associated with small and minority business loans. Financial institutions strongly indicated that uncertainty of repayment has discouraged such lending. This pool could be capitalized by local financial institutions. No direct federal cost is anticipated.

3. Establish Investment Pools

Additionally major corporations, banks, and insurance companies should be encouraged to establish zone investment pools. Similar to existing urban investment programs run by several major banks and insurance companies the investment pools would spread the higher risk frequently associated with start-up ventures. Also, investment criteria could be designed to reflect the realities of the environments in which zone enterprises will operate. This could be part of a local commitment and include no federal cost.

4. Relax Financial Regulations

Presently, commercial banks are precluded from making equity investments. Further, savings and loan associations are restricted in extending commercial credit to business enterprises. These two examples represent regulations that deter the flow of capital to small and minority businesses.

Relaxation of these regulations on financial institutions for zone based transactions, should release currently untapped debt and equity funds for zone enterprises. No federal costs are anticipated.

5. Defer Capital Gains Tax for Funds Reinvested in Zone

Capital loss should be immediately claimed against income while capital gains should be taxed only when they are not reinvested in the zone. When gains are removed from the zone they should be taxed at a rate lower than non-zone investments.

No direct expenditure by federal government; delayed or reduced subsequent tax revenue is the only cost.

MANAGEMENT DEVELOPMENT

The task force has kept in mind throughout this study the existing resources of MBDA. The area of management development is one where MBDA's ongoing efforts fit quite well with some of the requirements for assistance expressed during the field work.

Recommendations

1. Promote Use of Management Centers

Many of the technical assistance needs of the fledgling small business require immediate, walk-in type assistance. MBDA has in the past provided services of this type through its business service centers but more comprehensive and professional aid is essential. Profit-making firms should be invited to provide these services on a traditional fee basis in locations not served fully by MBDA. Such private sector involvement could be stimulated by a tax credit or as part of the local commitment.

2. Disseminate Information on Successful MBEs

In order to help establish a positive environment for management and business development, the actions taken by successful enterprise zone businessmen and other MBEs can be documented for distribution to potential entrepreneurs. Case studies should be developed from MBDA management assistance contractors which provide details on how "business role models" have gained access to financing, supplies and markets. This information should be distributed through existing MBDA business service centers. Cost to federal government is based on the cost of developing and disseminating this data.

3. Encourage large "anchor" businesses to locate in enterprise zones.

The "anchor" business can help meet three major objectives: (1) general enterprise zone economic development, (2) direct operating and management experience for potential enterprise zone entrepreneurs, and (3) expanded markets for existing enterprise zone businesses. The "anchor" should be encouraged to hire local residents with an interest in eventually establishing spin-off businesses that could provide goods and services to the "anchor." At the same time, the "anchor" could meet some of its procurement needs through existing zone businesses and provide informal management and technical assistance. This activity should be part of the local commitment and hence have no federal cost.

LABOR

Some of the Federal Government's most ambitious social programs have failed to solve the problem of high unemployment in urban areas. That continuing dilemma led to a heavy emphasis on job creation in the enterprise zone legislation written to date.

The task force recognizes the awesome burden placed on a new concept like enterprise zones by the requirement to also create jobs among the chronically unemployed. Accordingly, the recommendations that follow attempt to bring about enough of a balance to assure zone businesses a reasonable shot at success.

Recommendation

1. Relax or eliminate the 40 Percent CETA Hiring Requirement

   One of the most widely agreed upon measures arising from the task force's field work was the need to remove this requirement. Small and minority business owners felt that the problems of running their firms would be made insurmountable if they are also strapped with large numbers of unskilled workers. No specific federal cost is incurred if an equal number of workers are still employed.

2. Allow the Working Poor to Qualify

   Enterprise zone legislation currently calls for tax credits based on CETA eligibles only - not the working poor. The chance for business owners in zones to build productive workforces would be heightened if those who have demonstrated a willingness to work are given the opportunity to do so to the benefit of their employers in enterprise zones. This recommendation is closely tied to recommendation #1 and it is most relevant if a significant measure of CETA requirements are maintained in the proposed bills. If more workers qualify for credits, some incremental amount of lost revenue must be considered as a cost.

3. Provide Incentives to Zone Businesses

Even if CETA eligibility is maintained at or close to the 40 percent level, other zone residents should get a clear chance at employment with zone businesses. To make this happen, the task force believes the following incentives should be made available to zone businesses.

a) A substantial wage tax credit based on every zone resident employed. H.R. 3824 calls for a credit of 5% of wages paid to CETA eligibles.

b) A training tax credit also derived from the number of zone residents trained for gainful employment.

The two credits just mentioned would be granted only if the subject employees are retained for a meaningful period of time to prevent abuse of the incentives

c) A tax credit based on enrolled participants in training centers established for enterprise zone residents. The task force expects that established organizations could be attracted to undertake this effort based on an incentive of this type. The task force recognizes that the credits recommended probably mean some near term loss of tax revenues. However, as the job retention requirement is met, new tax revenues from increased payrolls and sales, should accrue to balance out the initial loss.

LOCAL ACTION

The concept of enterprise zones places the responsibility for implementation squarely on the shoulders of local jurisdictions. Therefore, infrastructure development, local tax relief, and day to day zone operation all fall to the local governing body or it's appointed agent.

The task force found a general willingness among local respondents to accept this challenge. The recommendations that follow assume that final legislation will retain a strong focus on local control and decision-making.

Recommendations

1. Engage Professional Zone Managers

The wide array of activities comprising an enterprise zone will demand competent, energetic management driven by traditional business incentives. To bring about the greatest possible degree of accountability, the task force believes professional managers should operate enterprise zones, on a profit center basis where possible. Costs would be borne by local parties. Design of this management system should be left to the local area. It is recommended that zone residents, representatives of the city, local businesses and financial institutions be included in a governing board with authority over some aspects of zone operation. The only federal cost should be technical assistance in design of profit center management.

2. Market the Enterprise Zone Concept

Past economic development programs have received low support from local residents eligible for program benefits. That problem can be traced to a lack of understanding and in some cases a failure to be aware of a program's requirements, its benefits and its objectives. This study found many respondents who were unaware of differences between enterprise zones and previous Federal subsidy programs. This study found many respondents who were unaware of differences between enterprise zones and previous Federal subsidy programs. To overcome that obobstacle in the case of enterprise zones, the concept should be widely explained to groups representing potential participants. This could be carried out in either of two ways. First, MBDA could do this in cities where an office is maintained. Alternatively, private firms could be invited to carry out campaigns on a traditional fee for service basis. Federal costs are those of conducting such a marketing campaign.

3. Target Resources for Necessary Zone Infrastructure

Because local jurisdictions were hesitant to indicate in advance what measures they might take if any to provide infrastructure - both physical and services, two recommendations are presented as follows:

a) If cities and states provide 100 percent tax and fee abatement and therefore generate no income from the zone, infrastructure should be provided by the occupants of the zone.

b) If revenue is generated, cities and states should allocate an amount from a source of their choice equal to the expected revenue.

No federal expense is indicated.

4. Encourage Local Participation

As an earlier recommendation also pointed out, formal management should be specifically included in the enterprise zone. However, design of this management should be left to the city, zone residents, and representatives of local business and financial institutions. These participants should be included on a zone board with authority to influence some aspects of zone operation. The board should be encouraged to hire competent professionals for actual zone management. It is suggested that the manager operate as a profit center in keeping with the philosophy of the zone. This could be done through payments from the zone participants or through an incentive based contract with the city. No federal expense is anticipated.

5. Allow Flexible Zone Boundaries

Zone boundaries should be made flexible. Rural governments should be able to design zones composed of non-contiguous pockets. Urban governments should have the power to give zone incentives to business outside the zone to the extent that all non-zone recipients have total employment no higher than 10 percent of total employment of zone recipients. In other words, if businesses in a zone that are receiving zone incentives have a total of 10,000 employees then the city could give comparable incentives to selected businesses outside the zone as long as employment in these non-zone businesses total less than 1,000. This approach could alleviate some likely controversies about where zone lines or boundaries should be drawn. Local governments will incur only a small additional cost from lost revenues based on the profits of the out of zone businesses receiving zone incentives. This net cost should be small since out of zone businesses will probably generate immediate offsetting incremental tax revenues to the city. Federal cost includes the added tax reduction only.

MONITORING

To complement and support the kind of zone management the task force believes is necessary monitoring of key zone activities will be called for. Here again, the task force has recognized a potential opportunity to leverage existing MBDA resources and minimize new expenditures.

Recommendations

1. Encourage a Variety of Zone Applications

    The task force is keenly aware of the uneven resources among the hundreds of jurisdictions who will compete for zone designation. Accordingly, cities' ability to put together sound zone concept packages and city resource potential should be identified and monitored. Potential applicants should either receive assistance from MBDA or be directed towards professional support. In the case of possible MBDA involvement, any expenditures above current levels should be minimal since current staff could be assigned to this effort.

2. Measure Zone Benefits

    As soon as zone activities are underway, tracking for evaluation should commence. The purpose in early and continuing evaluations by local, state and to a lesser degree federal officials is to maximize the benefits from the incentives offered. This means that incentives and other zone components should be dropped in future zone designations when they can no longer demonstrate positive progress towards the federal, state or the local goals. Such evaluation must not result in onerous regulation or bureaucratic "red tape." This effort could be carried out by MBDA's local service centers or by private firms coordinated with IRS routine records. Some cost will be incurred but those dollars will be minor when compared to the cost of possible program failures.

3. Track Federal, State, and Local Zone Program Development

The task force recognizes that MBDA seeks to ensure a key role for small and minority businesses in enterprise zones. Zones will be creations of federal, state and local bills. Therefore, MBDA should immediately establish a comprehensive system to stay abreast of legislative development including the features of the several federal bills and the large number of state bills being presented. If current staff are assigned to this, new cost will be reduced but as in recommendation (2) above there will be cost. Recommendation (2) is important for zone development. Recommendation (3) is important for minority business involvement. Evaluation cost must be sufficient to assure a valid and timely assessment of the enterprise zone program.

4. Monitor Zone Operation Locally

Zones should be monitored by a non-governmental local organization for actual operating requirements of specific firms. This could be incorporated into zone management. No cost to the federal government.

5. Use Community Reinvestment Act for Monitoring

The Community Reinvestment Act is an existing mechanism for effective monitoring of financial institution operation in specific areas such as enterprise zones. Using the reporting required by this act would ensure that financial institutions that generate funds from the zone make at least comparable reinvestment into the zone. No added cost to the federal government beyond that associated with the monitoring process which should now be in place.

APPENDIX 1. LEGISLATION

1. Urban Jobs and Enterprise Zone Act (HR 3824; S 1310) Introduced by Kemp (R-N.Y.); Garcia (D-N.Y.); Senators Chafee (R-R.I.) and Boschwitz (R-MN); June 3, 1981

- Designation

    a. Proposed by local government, subject to approval by HUD, which will approve 10 to 25 zones per year for three years.

    b. Approved zones are effective for twenty (20) years.

    c. Local government must propose local commitment such as reduction in tax rates or fees, increase in level or efficiency of local services, or commitment from private entities in the area of zones will be based on both level of distress and level of local support and commitment.

- Area Requirements

    a. Population of 4,000 if located in a SMSA of over 50,000; Population 2,500 otherwise.

    b. No population requirement for Indian Reservation.

    c. Area must be UDAG eligible (including "pocket of poverty").

- Area must meet of the following:

    a. Unemployment over the last 18 months is at least one and one-half times the average for the nation.

    b. Area was a low-income poverty area in the most recent census.

    c. Seventy (70) percent of residents have income below 80% of the area median income.

    d. Population decline of at least 10% between 1979 and 1980, and either chronic abandonment or substantial tax arrearages.

- Incentives
  - a. Elimination of capital gains taxes on new business investment within zones.*
  - b. Exclusion from taxation of half of all income earned by zone enterprise, and half of all interest income earned on loans to zone enterprise.*
  - c. Five (5) percent refundable business income tax credit equal to 5% of the wages paid to CETA-eligible zone employees.
  - d. Business loss carryover extended for 20 years.*
  - e. May use cash rather than accrual system of accounting if receipts are less than $2 million per year.
  - f. Five (5) refundable personal income tax credit for wages earned by zone employees in their first 36 months up to a cap of $1,500 per year.
  - g. Designation of foreign trade zones within enterprise zones should be expedited.

2. Urban and Rural Revitalization Act (S 1240); Introduced by Senators Heinz (R-PA) and Reigle (D-MI).

- Designation
  - a. Local government submits a plan to Department of Commerce showing the action they would take, such as tax allotment or services. There is no limit to the number of zones.
- Area Requirements
  - a. To be determined by the Secretary of Commerce.
- Incentives
  - a. Three-year accelerated tax write-off on the first $500,000 worth of assets.**

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* Available to businesses with at least 40% CETA eligible employees or existing businesses with 10% increase in employment, among whom 40% are CETA eligible.

** Fifty (50) percent of emplyees must be zone residents for business to qualify.

b. Exclusion of 90% of capital gains.**

c. Twelve (12) percent jobs tax credit to a business on the first $15,000 of salary for an employee resideing in the zone.

d. Pass through of tax credits and businsess losses to individual business owners

e. Permits 100 shareholders for a Subchapter S corporation.

f. Permits cash rather than accrual method of accounting.

3. Targeted Area Revitalization Act. (HR 2950); Introduced by Rangel (D-NY); April 1, 1981.

o Designation

a. Eligibility includes all census tracts at a distress level based on welfare, unemployment, and median income. The state governor selects 25% of those eligible as qualifying.

b. Benefits are extended for five (5) years.

o Incentives

a. Increase present 10% rehabilitation tax credit to 25%.

b. Provide a 15% credit for new structures.

c. Targeted jobs tax credit of 50% of wages paid a targeted worker on the first $10,000 wages the first year; 25% the second; and 15% the third. This is regardless of where the targeted worker works. If this is in a targeted area, the credit is increased by 15 percentage points each year.

d. Youth 16-18 are also eligible as targeted workers.

e. Provide 10% tax credit on interest from loans to target area businesses.

** Fifty (50) percent of employees must be zone residents for business to qualify.

4. The Rural Enterprise Zone and Development Act of 1982, which amends the Small Business and Family Farm Bill (S 360) proposed by Congressman Wes Watkins for the 97th Congress.

- Designation

  a. Approval of the Secretary of Agriculture using the following criteria:

    - The local governments approve of said zone

    - The local governments submit an approvable rural enterprise zone plan

    - The area meets the poverty, per capita income and unemployment eligibility criteria of the act or can demonstrate sudden and severe dislocation or prolonged economic deterioration resulting in a net outmigration of population, industry or jobs.

  b. Authorizes the Secretary to designate 25 rural enterprise zones for demonstration purposes during the first year and 10 additional zones for each subsequent year. A minimum of 50 rural areas will be invited to submit a rural enterprise zone plan for the purpose of competing for designation.

- Area Requirements

  a. Local government designation of a rural enterprise zone whose population ranges from 5,000 to 50,000.

- Incentives

  a. A 5 percent refundable tax credit for vocational training or agricultural extension services.

  b. A 5 percent refundable targeted jobs tax credit.

  c. Optional cash accounting method accelerated depreciation not to exceed 10 years.

  d. A 25-35 graduated tax credit for the cost of rehabilitating commercial and industrial buildings.

5. The Job Expansion and Urban Development Act (HR 2965); Introduced by Henry Nowak (D-New York)

Description

Areas receive points for degree of poverty, unemployment job lag, and slow growth in per capita income. Areas receiving the most points would be eligible for designation as zones, with no requirement of local concessions. Designation is by state and local government with approval of the Secretary Commerce. There is no limit on numbers of zones. Zones exist 10 years with possible renewal.

Area Requirements

Economic characteristics as indicated above. Population of at least 5000 within an incorporated city of at least 10,000, 50% of hours of service in each firm must be performed by zone residents.

Incentives

Rapid depreciation and increased allowance in first year. Tax credits for investment, rehabilitation, and targeted jobs. Investment tax credit is refundable up to $100,000, 50% deduction of wages paid to all employees if resulting funds are used to purchase securities to be held by an Employee Stock Ownership Plan.

SBIC's may invest in zones at a higher ratio of public to private dollars than the ratio used elsewhere.

6. The Economic Recovery and Job Creation Act (HR 3) introducted by Don Albasta (D-Michigan)

Area Requirements

- High unemployment

Incentives

- Rapid depreciation
- Refundable investment tax credit
- Increased rehabilitation tax credit
- Special incentives for investment in renewable energy resources.

OTHER LEGISLATION

1. States

The following are examples of legislation in effect in different states which follow the philosophy of enterprise zone proposals.

Connecticut

Enterprise zone legislation has passed to designate six zones based on poverty, welfare recipients, or unemployment for at least 10 years. Employment training vouchers issued to certain potential employees; real property assessment is held fixed for seven years; credit of 25% of business tax for manufacturing firms locating in a zone (50% if zone residents make up at least 30% of the firms' employees); establishment of one million dollars in venture capital loans to establish zone small businesses; elimination of sales tax on repair and replacement parts; $1,000 grant for each new employee resulting from new investment.

Florida

Several bills passed following the 1980 riots and include credits against state corporate income tax equal to 25% of an employee's wages, 50% of investment costs, 96% of property taxes, and a 10-year credit of school taxes paid for businesses that locate in designated slum areas.

Louisiana

The Louisiana Enterprise Zone Act was passed in 1981 to stimulate business in depressed areas. Areas will be selected based on unemployment, income, migration, and welfare load. Approximately 25% of the census tracts in the state may qualify. A local jurisdiction offered zone status must agree to improve police protection, give priority to UDAG or CETA funds, and aid in simplifying regulations. The state will provide training and technical assistance to small businesses. Specific contracts may be offered:

- To exempt business from sales or use tax on items for building construction, plant or equipment;
- To exempt business from income taxes for 5 years, renewable for 5 more years;

- To exempt business from corporate franchise tax;
- To give a $2,500 tax credit per net new employee.

For a business to receive benefits, at least 35% of its employees must be residents of the zone, on public assistance, or CETA eligible. Companion legislation estahblishes a $1 million loan fund for minority business development and preference is given to loan application for State Small Business Equity Corporation funds.

Puerto Rico

A combination of Section 936 of the Federal Internal Revenue Code and Puerto Rico's Industrial Incentives Act provide potentially complete income tax exemption for businesses engaged in manufacturing, tourism and exporting. Exemption from Federal taxes is uniformly applied while Puerto Rican exemption depends on the businesses locating in high unemployment areas and promising extensive job creation. Exemptions from corporate income and property taxes, license taxes and individual income tax on dividends paid by exempt corporations are possible. A business may elect partial exemption for a longer period or full exemption for up to 25 years.

In addition, legislation is either proposed or in effect in at least the following states, using sales tax, property tax, income tax or other incentives of this type to specific zones.

California
District of Columbia
Illinois
Indiana
Maryland
Massachusetts
Michigan
Minnesota
Missouri
Montana
Nebraska
New Hampshire
New Mexico
New Jersey
New York
Ohio
Oregon
Pennsylvania
Wisconsin

2. Small Business Innovation Act of 1981 (HR 11) Introduced by Smith (Iowa) January 5, 1981

Changes in the Small Busiuness Act proposed to target 15% of Agency R&D budgets to small business and to actively help small business compete for bids.

Gains in equity in small business when sold are not taxed if they are reinvested within 18 months. Loss carry forward for small business is extended to ten years. A deductible research reserve can be established for up to $50,000 per year. Subchapter S corporations may have as many as 100 investors.

APPENDIX 2. FIELD VISITS

DISCUSSION GUIDE

I. Small and Minority Business Leaders

A. Are you familiar with the Urban Enterprise Zone concept? Have you been following the legislation? (If no or hesitant, explain the concept briefly.)

B. What kinds of federal or local tax incentives, if any, would lead you to consider moving into a zone? (If hesitant, mention capital gains, income exclusion, property taxes, etc.) What if this were a new business?

C. Does the size age of type of business make a difference in how attractive various tax incentives are? If hesitant, mention small, medium, large and manufacturing, whole-saling, retail, etc.)

D. What kinds of federal or local regulatory waivers or other incentives would lead you to consider moving to a zone? (If hesitant, mention environmental health and safety regulations, zoning and building codes.) What if this were a new business?

E. Does the size, age or type of business make a difference in how attractive regulatory waivers are?

F. What are the key factors in any location decision you might make? (If hesitant, mention skilled labor supply, transportation, amenities, city services, crime, etc.)

G. Do you hire low-income or unemployment individuals? If not, why not?

H. Are you familiar with the CETA programs? Have you participated? If so, what has your experience been? If not, why not?

I. Are you familiar with targeted job tax credits? If so, have you used this program? What has your experience been? If not, why not?

J. What kinds of incentives would lead businesses to hire low-income or unemployed persons? (If hesitant, mention tax incentives, wage subsidies, etc.)

K. Has your business been assisted by any federal, state or local government programs? If so, which ones? If not, why not?

L. In your opinion, who will benefit from enterprise zones? (If hesitant, mention new, expandig and relocating businesses, local versus outside businesses, etc.) Will zones help or harm small businesses? Why?

M. Who should have the power to decide where zones are located? (If hesitant, mention the federal, state and local government.) Who should have a say-so in the decision? Who should be in charge of marketing zones? Who should manage them? Why?

N. Do you think neighborhood residents will be concerned about living in a zone? If so, what will their concerns be? What safeguards can be built into zone legislation or implementation to deal with their concerns?

o Who will invest in zones? Will banks or private investors? Will others? What would it take to get outside equity and loan funds into these areas? Why?

P. Do you have any suggestions for specific items that should be changes or included in zone legislation or implementation to help insure that zones are pratical and useful to small business?

Q. On balance, do you think your company will participate in a zone? Why?

II. Large Business Leaders and General Business Representatives

A. Are you familiar with the Urban Enterprise Zone concept? Have you been following the legislation?

B. What kinds of federal or local tax incentives, if any, would lead you to consider moving into a zone? What if this were a new business?

C. Does the size, are or type of business make a difference in how attractive the various tax incentives are?

D. What kinds of federal or local regulatory waivers or other incentives would lead you toconsider moving to a zone? What if this were a new business?

E. Does the size, age or type of business make a difference in how attractive regulatory waivers are?

F. What are the key factors in your location decisions?

G. Do you hire low-income or unemployed individuals? If not, why not?

H. Are you familiar with the CETA programs? Have you participated? If so, what has your experience been? If not, why not?

I. Are you familiar with targeted job tax credits? If so, have you used this program? What has your experience been? If not, why not?

J. What kind of incentives would lead businesses to hire low-income or unemployed persons?

K. Has your business been assisted by any federal, state or local government programs? If so, which ones? If not, why not?

L. In your opinion, who will benefit if enterprise zones are created? Why?

M. Who should have the power to decide where zones are located? Who should have a say-so in the decision? Who should be in charge of marketing zones? Who should manage them? Why?

N. Do you think neighborhood residents will be concerned about living in a zone? If so, what concerns will they have? What safeguards can be built into zone legislation or implementation to deal with their concerns? If not, why not?

O. Who will invest in zones? Will banks, venture capitalists or tax shelter investors? What would it take to get outside equity and loan funds into these areas?

P. Has your company launched or helped launch any small spin-off or other new ventures recently? If so, what are they? Do you think a zone location would benefit these businesses?

Q. Are your familiar with the concept and operations of Foreign Free Trade Zones? Is your company active in any? If so, what has your experience been? If not, why not?

R. Do you have any suggestions for specific items that should be changed or included in zone legislation or implementation to make it more attractive to companies such as yours?

S. On balance, do you think your company will participate in a zone? If so, why? If not, why not?

III. City and State Officials

A. Are you familiar with the Urban Enterprise Zone concept? Have you been following the legislation?

B. Will you try to get one or more zones located here? If so, where? What you done to get started? What agency is taking the lead? What progress has been made? Are you optimistic about your chances? If so, why? If not, why not?

C. What level of government should have the responsibility for designating zones? How should zone boudaries be determined? By whom? What factors should be taken into account in designating a zone and drawing its boundaries? Why? Are or will zone boundaries be a political issue? If so, how?

D. Who should market and manage zones? How should marketing and management be done? Why?

E. Should zone designations be revocable? If so, who should monitor implementation? What should the grounds for revocation be? If not, why not?

F. What programs do you operate to encourage business location, expansion or relocation and/or aid small and minority businesses. Which of these or any you plan to add would be linked to zones? Why? How?

G. What new tax or regulatory incentives are you prepared to offer in connection with zones? Would these work? How?

H. Will the programs and/or incentives offered raise or lower revenues and expenditures over the short- and long-run? How will these programs and/or incentives affect local infrastructure investments and service delivery? Are or will these programs and/or incentives be political issues. If so, why? If not, why not?

I. Do you think neighborhood residents will be concerned about living in a zone? If so, what will their concerns be? What safeguards can be built into the zone legislation or implementation to deal with their concerns?

J. In your opinion, how effective have the CETA and targeted jobs tax credit programs been? Why?

K. Are you familiar with the concept and operations of Foreign Free Trade Zones? If so, what is your opinion of their utility? Why?

L. What kinds of businesses and people will be the primary beneficiaries of Enterprise Zones? Why? How?

M. Who will invest in zones? Will banks, venture capitalists or individual investors? What will it take to get outside equity and loan funds invested in these areas?

N. Do you have any suggestions for specific items that should be changed or included in zone legislation or implementation to make zones more attractive and effective?

IV. Sources of Venture Capital and Loan Funds

A. Are you familiar with the Urban Enterprise Zone concept? Have you been following the legislation?

B. Do you do business with small and/or minority business? Why? If so, how much?

C. What are the major upside features and downside risks associated with zone locations? Why? How important are these? What kinds of tax, regulatory or other incentives or relief would offset these risks?

D. How do you think the incentives in the legislation will affect the various sizes, ages and types of businesses? Which businesses are most and least likely to take advantage of the incentives offered? Why? Which are most and least likely to benefit? Why?

E. Who will invest in zones? Will private investors? If so, which ones? If not, what would it take to get outside equity and debt capital invested in these areas? Why?

F. Will the incentives in the proposed legislation affect your investment judgment relative to businesses locating in zones?

G. Will zone businesses channel funds away from small and/or minority businesses located outside zones? Why?

H. Will you encourage your clients to investigate zone locations? Why?

*I. Will you consider locating in a zone? Why?

J. Do you have any suggestions for specific items that should be changed or included in zone legislation or implementation to make zones more attractive and effective?

V. Neighborhood Representatives

A. Are you familiar with the Urban Enterprise Zone concept? Have you been following the legislation? If no or hesitant, explain the concept briefly.

B. Do you think giving businesses tax breaks and waiving laws and regulations to get them to move into certain neighborhoods is a good or bad idea? Why? Should the businesses give up anything in return? What? Why?

C. Who should have the power to decide where zones are located? (If hesitant, mention the federal, state or local government.) Who should participate in the decision? Why? How?

D. Who should decide which businesses to recruit to move into the zone? Why? Should any businesses get perference? Should any businesses be excluded? Why?

E. Who should do the business recruitment for the zone? Why?

F. Who should oversee the way the zone business operate? Why? Are there any reasons you can think of for evicting a business from a zone? If so, who should decide on evictions? Why?

G. In general, what role should neighborhood residents have in connection with any zone in their area? Why? If so, how would this work?

H. Who do you think will benefit the most and least from zones? Why?

I. Do you think outside investment dollars will be attracted to zone businesses? Why?

J. On balance, do you think zones will work? Would you want one in your neighborhood?

*For lenders only

Cities Visited During the Study

City	Number of Interviewers	Date of Arrival	Number of Days
Hartford, CT	5	7/15	2 1/2
Richmond, VA	2	7/20	2
Boston, MS	2	7/20	2 1/2
Indianapolis, IN	2	7/27	2
Cleveland, OH	2	7/29	2
New York, NY	2	7/27	2 1/2
Providence, RI	2	7/30	1 1/2
Miami, FL	2	8/3	2
San Juan, PR	2	8/5	2 1/2
Detroit, MI	2*	8/3	2
Minneapolis-St. Paul, MN	2*	8/5	2
Greenville, MS	2	8/17	1 1/2
Jackson, MS	2	8/19	1
New Orleans, LA	2	8/19	2
San Francisco/Oakland, CA	2	8/16	2
Los Angeles/Compton, CA	2	3/18	3

* These visits included an interviewer from the Department of Housing and Urban Development working on Enterprise Zones.

APPENDIX 3.INTERVIEW PARTICIPANTS

The following lists are representative of the individuals and organizations interviewed during this study. They are not intended to be complete listings.

Minority Business Owners

Two businesses in San Francisco, including a forest product supplier and construction contractor.

Ten businesses in the Compton, California area including an automobile dealer, machinist shop, realtor and construction contractor.

Eight businesses in Detroit including a dry clearner, two restaurants a McDonalds franchise and an auto parts dealer.

Three businesses in Providence including a machine tool company.

Seven businesses in New Orleans, including a hotel, bakery, hospital supply company, and furniture store.

Ten businesses in Indianapolis including a meat wholesaler, a dentist, a radio station center an oil dealer, roofing contractor and child care center.

Eight businesses in Greenville, including the operator of a radio station, garment manufacturer, rail spike plant, insurance agency, fast food store, and an electronic parts manufacturer

Five small businnesses in Jackson Mississippi, including several retailers, a law firm and a gas station.

Four businesses in Richmond, including a furniture store a machine tool company and a building maintenance firm.

Five small businesses in Hartford, including a heating oil dealer, a construction contractor and several retailers.

Eight Harlem, South Bronx or Manhattan business owners including a manufacturer, insurance agency, real estate company,radio station, storm window installation company, and a mushroom farm

Four businesses in Puerto Rico, including a brewery, a lawyers office, and a manufacturer's representative

Input Output Computer Services and Glasmobile Co. (Boston)

American Insurance Agencies (Agent) in Indianapolis

Sheridan Broadcasting Corporation

Mt. Eden Nursery

Ottie Marine Oil Company

Major Corporation and Non-Minority Business

Five businesses in San Francisco including a food processor, and light manufacturing concerns (San Francisco)

Pacific Gas & Electric (VP general services)

R. T. Nahas Company (President)

Eight small and medium sized businesses in the Compton, California area, including a forging company, automobile dealer, and a heavy manufacturing concern.

Control Data - Representatives from a variety of business development programs operated by the company

Chrysler Corporation (Government Affairs Department)

Dayton Hudson Corporation (Vice-President)

Arthur D. Little (Vice-President for western region)

Connecticut Mutal Life Insurance (Chairman)

The Travelers Corporation (Chairman)

Aetna Life and Casualty (Chairman)

Connecticut General Life Insurance (Vice-President)

Southern New England Telephone (Vice-President)

Michigan Bell Telephone

Prudential Insurance

University Hospitals for Cleveland

Cleveland Electric Illuminating Company

Business Associations and Professional Organizations or Professionals

Hartford Chamber of Commerce

Richmond Chamber of Commerce

Oakland Black Chamber of Commerce

Boston Chamber of Commerce

Detroit Hispanic Business Alliance

Greater Detroit Chamber of Commerce

Minneapolis Hispanic Chamber of Commerce

Minneapolis Chamber of Commerce

Greenville Chamber of Commerce

Greenville Business/League (Minority Chamber of Commerce)

Jackson Mississippi National Business League

Boston National Business League

Detroit National Business League

Compton Chamber of Commerce

Richmond Metropolitan Business League

San Jan Chamber of Commerce

Wayne County (Mich.) Economic Development Corporation

Detroit Economic Growth Corporation

Miami Capital Corp. (LDC)

Hartford Urban Development Corporation

Harlem Urban Development Corporation

Bronx 2000

South Bronx Development Organization

Renaissance Development Corporation (Detroit)

Detroit Urban League

Urban League of Rhode Island

Jackson Urban League

Providence Urban League

Richmond Urban League

Rhode Island Opportunities Industrialization Center (OIC)

Richmond Opportunities Industrialization Center (OIC)

Providence Opportunities Industrialization Center (OIC)

Detroit Renaissance Corporation

Pacific Economic Resources League, Oakland

Asian, Inc., San Francisco

Embaracadero Center, San Francisco

Bay Area Council, Inc., San Francisco

Minority Contractors Association, San Francisco

New Detroit, Inc.

Minnesota Business Partnership

Mississippi Manufacturers Association

Virginia Minority Purchasing Council

Boston Minority Purchasing Council

Harlem Business Alliance

Janus Associates

LISC (Local Initiative Support Corp.)

National Puerto Rican Business and Markeing Assn. (New York)

Inner City Business Council of Detroit

Puerto Rican Manfuacturers Association

Miami International Trade Center

Arthur D. Little

Detroit Financial Management Consultant

Policy Management Associates

Financial Institutions, Investment Firms or Specialists Venture Capitalists

Urban National

Providence Inbank Bank (Minority)

Providence real estate developer and consultant

First National Bank of Boston

Provident Savings BAnk

Unity National

Liberty Bank and Trust (Minority) New Orleans

MESBICS in Boston, Providence, Detroit, Minneapolis and Indianapolis

Carver Bank (Minority) Harlem

Ameritrust Bank

Indianapolis Midwest Bank (Minority)

Banco Populare de Puerto Rico (President and two Vice-Presidents)

Bache and Co. (Puerto Rico)

Miami Capital Corporation

Southern Pacific Land Company

Coldwell Banker

First Interstate Mortgage, San Francisco

Grubb and Ellis Development Co.

Eastdil Realty

Providence Citizens Bank

Merchants Bank, Indianapolis

Merchants Bank, Indianapolis

Minneapolis banks, including Northwest National and National National Bank of Minneapolis

Greenville First National Bank

California banks including Security Pacific, Bank of America, Wells Fargo, Crocker, Interstate, Barclays

Richmond Venture capitalist

New York Bank of Savings

Citibank

Chemical Bank of New York

Major New York venture capitalist

New Orleans citywide Development Corp. (CDC)

A New Orleans minority venture capitalist and head of a MESBIC

Eli Lilly Foundation

Indianapolis Eastside Community Investments Inc. (CDC)

American Indian Economic Development Corp., St. Paul

First Minnesota Capital Corp.

Wayne County Economic Development Corp.

Bronx 2000 (LDC)

Financial Consultants in Detroit, Providence, San Francisco, and Boston

Puerto Rican Community Development Corp. (CDC)

A Puerto Rican attorney, expert in tax exemption law

Individual venture capitalists and tax attorneys in several cities including New Orleans, Providence, Richmond and Cleveland

Local Government Officials

Richmond: Mayor; grants manager from city managers office

Detroit: City councilman

Cleveland CETA director; director of economic development; county officials

Los Angeles: Twelve representatives from offices of several councilmen, the economic development office, city planning department, legislative analysts office and the community development department.

Boston: City officials

Hartford: Mayor; four members of city council; director of city development commission; director of planning department

Providence: Director of economic development

New Orleans: Director of Economic Development; director of office of economic analysis; director of employee training and development; director of community planning; area specialist for Desire development. Mayors executive assistant for planning and development; coordinator of minority business development.

Minneapolis: Mayor; city economic development officials

St. Paul, Minn: Mayor; city economic development officials

Jackson, Mississippi: Assistants to two city commissioners; county supervisor; assistant to the mayor

Compton, California: Director of economic development; controller; economic resources corporation, councilman.

San Juan: Mayor; director of economic development;

Miami: Department of Trade and Commerce Development; CDBG director; city economist; city manager of Opa-locka; director of Miami Revitalization Board; director for community and economic development for Dade County; Miami Planning Department

New York: Economic Development Department, South Bronx Development Organization; former Manhattan Borough President.

Indianapolis: Assistant to the mayor, office of economic development; planning department, CETA Director.

State Government Officials

Connecticut: 14 participants from Departments of State Economic Development, Human Resources, Planning and Development, Housing Finance Authority, Office of Small Business, including elected senators or representatives that sponsored the Connecticut zone legislation.

Michigan: Director of Economic Development, State Department of Commerce; state representative who drafted zone legislation; State Directors of Minority Business Enterprise.

Rhode Island: Commissioner of Civil Rights; Director of Economic Development; member of governor's policy staff.

Louisiana: State Senator who authorized state enterprise zone legislation; Secretary of Commerce

Indiana: Sate Senator who authorized state enterprse zone legislation; Secretary of Commerce

Indiana: Director of Financial Regulatory Agency; office of Minority Business Enterprise

Mississippi: State legislator director of department of economic development; director of state R&D Center; director of planning and policy; reginal economic development representatives; representative form the governors office

Virginia: State department of human resources

Ohio: State senator; Department of Commerce and Economic Development

Puerto Rico: Fomento (economic development) director; economic advisor to the governor; state municipal services authority

Federal Agencies or Their Contractors

MBDA - Field representatives in Richmond, Boston, Detroit, Minneapolis, Oakland, Indianapolis, Washington, D. C., and San Francisco. A contract consultant in New Orleans and in Boston

SBA Director in New Orleans and San Francisco local staff for U.S. Senators in Minnesota. A consultant in economic development and planning for local, state and federal offices in Puerto Rico.

Ewell Associates

Inner City Business Council of Detroit

Neighborhood Organizations, Community Based Organizations

CCC Social Responsibility, San Francisco

Detroit Latino Caucus

Upper Albany Development Corporation (Hartford)

Desire (New Orleans) Community housing Corporation

Delta Foundation (Greenville, Mississippi)

Mississippi Action for Community Education (Greenville)

Urban League (Detroit)

South Delta Planning and Development District (five leaders)

National Urban Coalition (Detroit)

The East Los Angeles Community Union (TELACU)

Detroit Growth Corp.

Harlem Community Council

Several LDC's in Cleveland

Organized Labor

Senior economist, United Auto Workers

Richmond Labor Council

Indianapolis Labor participants in a large group meeting

Cleveland AFL-CIO

Education or Training Sepcialists, Both Public and Private

Community Education Activiation Program, San Francisco

Mexican American Legal Defense and Education Fund, San Francisco

Desire (New Orleans) Vo-Tech Center

University of New Orleans Center for Economic Development

Indianapolis - an entrepreneurial development organization

Eli Lilly Endowment

Greenville president of school board; superintendent of schools

Dean of Business at Jackson State

Liberty City (Miami) Youth Center Director

Project Hope (Detroit)

Chrysler Learning Centers

Control Data Programs for Education

Lawyers/Accountants

Squires Sanders and Dempsey (Cleveland)

Stavisky, Shapiro and White (Boston)

Price Waterhouse

Walker and Co. (Detroit)

Jack Martin and Co. (Detroit)

A number of other individual lawyers or accountants were included from cities such as Minneapolis, Detroit, Cleveland, Richmond, New Orleans, etc.

APPENDIX 4. TASK FORCE MEMBERS

Thomas C. Dandridge, Chairman. Professor of Management and Small Business Institute Director at the State University in Albany, NY; extensive experience with small businesses and the Enterprise Zone concept.

John E. Oxendine, President, Broadcast Capital Fund Inc.; a private venture capital company. This company assists minorities in acquisition and ownership of broadcast properties. Formerly with First National Bank of Chicago for five years and the Federal Home Loan Bank Board for three years.

Steven Davidson, Financial and economic development consultant, presently works with the National Rural Center; extensive work with businesses and financial institutions; advised state, federal government and economic development organizations in business, finance and tax policy.

Shirley Chilton, California business executive, professor at Pepperdine University, incoming president of the California Chamber of Commerce.